

## **Response by the Utility Regulator to its Mid-Term Review of Corporate Strategy**

### **Introduction**

1. The Utility Regulator developed its first Corporate Strategy in 2009, to cover the period to 2014.
2. A commitment to undertake a mid-term review of our Corporate Strategy was made in our Forward Work Plan 2011-12.
3. As part of the review we developed a discussion paper, 'Reflecting on our Corporate Strategy 2009-14'. This paper was the basis of consultation with stakeholders. On 30 June we held a workshop on the mid-term review with over 30 stakeholders. We also subsequently published the discussion paper. We subsequently received nine further responses from stakeholder organisations at the culmination of the consultation on the discussion paper, on 9 September 2011.
4. Our discussion paper sought stakeholder views on the following:
  - a. have we considered all of the key external developments that have occurred since 2009;
  - b. do you agree with our overall view that the strategic direction set out in our corporate strategy remains relevant and is the right high-level approach;
  - c. do you agree with the four areas where we think we need to evolve our strategic workstreams; and
  - d. is there anything else that we need to consider regarding our strategic direction over the period to 2014 (when the current corporate strategy period ends).
5. We present an overview on the comments received on each of the four questions with our response below.

## **Key external developments since 2009**

6. Responses on this question would suggest that our survey of external developments since 2009 was comprehensive.
7. Our consultation benefitted from some suggestions from stakeholders regarding significant external developments. Local political change and the impact on regulation were identified. Developments associated with the work of regulators (such as the review of Ofwat) were also mentioned. We also noted comments which focused on the future – technological development, environmental sustainability, the impact of climate change and extreme weather on network resilience and the impact of declining gas supply in Europe. Comments were also on made in relation to fuel poverty and the regulation of home heating oil.

## **Overall view on corporate strategy direction**

8. Overall, stakeholders agreed that the strategic direction set out in our corporate strategy remains relevant and is the right high-level approach.
9. Additionally, specific comments were made on a range of issues. While the list is not exhaustive, we identify many of these issues here. Several comments encouraged us to seek to exercise our influence outside Northern Ireland – at an EU level, and for us to play a role in the regional integration agenda.
10. Comments were also made on what can be broadly called infrastructure development issues: encouraging a long-term view of interconnectivity, 'look east-west as well as north-south (on infrastructure development); renewable integration - the development of bio methane into the gas grid was mentioned; the development of the gas network in Northern Ireland; and, resourcing and network financing issues.
11. There were a group of comments which focused on our regulatory practice: how we conducted price controls – with specific comments about our cross utility work and guidance on price controls; the use of costs benefit analysis and regulatory impact assessments in our work; how we consult (and the content of consultation papers) and engage with stakeholders; the inputs and outputs from our work, and value for money; and the need to balance the interests of the needs of today with future needs.
12. Comments were also forthcoming about the various strategic frameworks impacting on our work: there was a view that the delivery of the strategic energy framework

should be given more prominence in our work; and the need for us to play a role in the long-term strategy for water, was also mentioned.

13. Specifically there was a call for us to address the issue of greater liquidity in within the single electricity market.

14. Finally, there were some comments relating directly or indirectly to the needs of vulnerable consumers – social tariffs, the views of vulnerable customers in smart metering development and the lack of regulation of home heating oil.

### **The four areas where we need to evolve our strategic workstreams**

15. Stakeholder comments showed broad support for the four areas identified, where we need to further evolve our strategic workstreams – sustainability, cross utility work, retail strategy and influencing in Europe.

16. In relation to cross utility working, there is support for us continuing this approach. There were also specific comments welcoming engagement with us on our price controls project. A suggestion for a cross utility forum is also noted.

17. There also appeared to be support for our focus on mainstreaming sustainability across our work. Stakeholder comments tended towards seeking our view on what this would mean in practice – the articulation of sustainability across our work and the engagement with stakeholders to support the achievement of targets. A comment was also made that regulators needed policy advice on sustainability.

18. Stakeholders also agreed that our focus on strategically setting out the future direction for retail competition was appropriate. One or two stakeholders thought that delivering competition was important, as it may lead to a less interventionist approach by the regulator. Others thought that retail competition would make a small impact on pricing. One stakeholder felt that we had been ‘slow to develop strategic framework for retail competition’.

19. Finally, all of the comments received on the issue, supported our focus on seeking to influence developments at a European level in relation to energy.

### **Other things to consider over the period to 2014**

20. Stakeholder responses to this question tended to reprise several earlier comments. These included approaches to price controls, assessing our own performance, our consultation and decision-making processes. There were also specific comments relating to the need for a longer-term strategic outlook by us, licensing arrangements and the need for the correct balance in regard to consumer protection.

## Conclusion

21. We are grateful for the engagement with stakeholders on our mid-term review of corporate strategy. Several stakeholders also commented on the usefulness of the consultation approach employed for this review, and we will reflect on the merits of employing aspects of this approach in future consultations.
22. Our consultation sought comment on specific questions. Overall, the comments we have received would lead us to conclude that our current strategic priorities remains appropriate.
23. It is clear that several of the comments received, about specific issues/workstreams, during the consultation do require our response and we will address them below. We will do so in terms of four areas: (1) issues that we have already taken action on; (2) issues that we plan to address through our Forward Work Plan 2012-13, (3) issues that require further consideration by us, and (4) issues that we will not be addressing.
24. In relation to issues where we have already taken action:
  - a. on 1 July we published our strategic view on retail competition;
  - b. we published a network price controls consultation paper on 20 September which sets out our view on price controls methodologies and process and provides an opportunity for stakeholders to engage during the consultation period;
  - c. on 21 September we published our response to the Financing Networks discussion paper.
25. In relation to issues that we plan to address in our Forward Work Plan 2012-13 - a draft of which is due to be published for consultation before the end of October 2011. Specifically, we intend to carry out the following projects:
  - a. our RP5 price control, which is due for completion next year, and will make a determination on the investment requirement for accommodating renewables on the electricity network – and hence make a contribution to meeting Strategic Energy Framework targets;
  - b. the issue of market liquidity in the SEM;
  - c. an accessibility action plan (which will include consideration on how we consult) – we intend to progress some elements of this work within the current financial year;

- d. considering options for assessing our organisational performance;
- e. continue our cross utility work by reviewing the approach to the regulatory reward framework for regulated companies that are non-network and non-asset based;
- f. in relation to infrastructure development, we will implement, in conjunction with DETI, any decision to extend the natural gas network;
- g. review the social, economic and environmental implications arising from GB reviews of the water industry as they relate to NI;
- h. require NI Water to develop and consult on a Strategic Direction Statement to address sustainability issues as part of their submission for the PC15 price control;
- i. undertake a Stage 2 review of the operation of the retail energy markets in Northern Ireland;
- j. finalise protocols for ensuring the Utility Regulator view is communicated at the Agency for the Cooperation of Energy Regulators (the European energy regulatory body);
- k. consider implications of changes to the regulatory regime being proposed by Ofwat and WICS.

26. There are several issues that require further consideration by us. These include how we mainstream sustainability in our work in practice, the correct balance in regard to consumer protection, regulatory process issues relating to cost benefit analysis and regulatory impact assessments, and the idea of a cross utility forum.

27. Finally, there are some areas where our ability to address the issue is limited. While for instance we have informed the debate on social tariffs, any decision on its implementation rests with the NI Executive. The regulation of home heating oil is another issue over which we have no locus. Policy advice on sustainability for regulators is a matter for the relevant government departments.