

19 May 2017



Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

Re: NIE Networks Transmission and Distribution price control (RP6) draft determination

CBI Northern Ireland is delighted to have the opportunity to respond to the Utility Regulator's RP6 draft price control determination for the period 2017-24. NIE Networks plays a crucial role in the delivery of a low-cost, secure and sustainable electricity supply – crucial to the success of any modern economy. As such, it is important that NIE Networks is regulated fairly and in a manner that best supports the regional economy.

From the outset it is important to say that the CBI supports the vast majority of the Utility Regulator's draft determination. Businesses, in particular Large Energy Users (LEUs), will welcome the Regulator's efforts to lower the cost burden placed on consumers. However, the CBI believes that there must be a proper balance between investment and cost reduction.

The CBI has concerns regarding the Regulator's decision to reduce NIE Network's planned investment in measures to reduce congestion on the 33Kv network by over 15%. We seek further clarity from the Regulator that this reduction will not hinder business' efforts to reduce energy costs through onsite generation nor hinder their ability to become proactive players in the electricity market.

Many of our LEUs have standby generation and incentivising their use to cover sudden drops in renewable generation may avoid the triggering of constraint costs, thereby reducing costs for all consumers while at the same time rewarding LEUs by helping to reduce their overall energy cost. The Regulator must ensure that the network retains sufficient flexibility to accommodate business' efforts to reduce costs and increase competitiveness.

In addition, for the regional economy to grow, businesses must have access to modern grid infrastructure that supports their growth ambitions. Local businesses, particularly in the west of the province, are reporting that growing congestion in the transmission and distribution networks has led to situations where firms have been unable to obtain new or improved connections unless they pay the high costs of upgrading the local network themselves. A clear barrier to economic development.

In summary, industry seeks assurance that the proposed reduction in NIE Networks' capital expenditure budget will not adversely impact regional economic development. Addressing this issue within the final determination would go a long way to assuring local businesses that the right balance between cost and investment has been identified.

There is also the issue of the proposed investment levels in innovation. The CBI has undertaken extensive research on the area of innovation and we recognise that the up-front costs of innovation for firms are part of a healthy business model that pay off in the longer term. We therefore have some concerns that, in this determination, the Regulator is not fully supporting NIE Networks' efforts to innovate. Where there are opportunities to invest in innovative products and practices now, in return for greater cost reductions in the future, it would be the CBI's view that these opportunities ought to be taken. Businesses intrinsically understand that requirement and the CBI has long called on the government to better support innovation and indeed raise spending on R&D to 3% of GDP.

Recent improvements in large scale electricity storage technologies have opened up further opportunities to increase the efficiency of renewable and conventional generation. Excess generation can be stored and then used when the wind does not blow thereby reducing the instances that wind turbines have to be paid to shut down to ensure system stability when demand is being satisfied. In addition, storage facilities also allow electricity grids to operate more efficiently by providing services to support real-time balancing of demand and supply, network congestion management and reducing the need for investment in system reinforcement.

Director-General:
Carolyn Fairbairn
President: Paul Drechsler CBE
Registered No:
RC000139 (England & Wales)
Registered Office:
CBI, Cannon Place, 78 Cannon
Street, London EC4N 6HN

t: +0289 010 1100
f: +0289 010 1119
ni.mail@cbi.org.uk
www.cbi.org.uk
@CBItweets

CBI Northern Ireland
2nd Floor, Hamilton House
3 Joy Street, Belfast BT2 8LE

The CBI is therefore concerned that the Regulator has refused NIE Networks planned dedicated spend to examine the facilitation of Energy Storage Services. We believe that this important area of work deserves a dedicated fund rather than labelled as a “business as usual” activity. In addition, members believe that the final determination should retain enough flexibility to allow NIE Networks to pursue storage opportunities in the event of a successful outcome of the proposed work, either through additional capital expenditure or through service agreements with third parties.

Furthermore, the CBI is concerned by the Regulator’s decision to re-profile the RTU reinforcement rollout by installing 50% of the proposed new RTUs in the latter half of the RP6 period with the remainder installed in the first half of the RP7 period. While this approach does spread the costs of RTU installation over a longer period, it also markedly delays any benefits that can be derived once all RTUs are installed. As we understand it, the exciting possibilities presented by the proposed innovation projects can only be brought to fruition once *all* RTUs are installed. Therefore the sooner the investment is made, the greater the potential return.

In summary, with regard to innovation, the CBI believes the Regulator should ensure that NIE Networks is provided with the necessary resources (only 2% of overall capex spend) it requires to innovate to the best of its ability. We would therefore like to see greater clarity from the Regulator regarding the reasons behind its decision to reduce NIE Network’s proposed RP6 innovation expenditure by nearly a third.

Finally, it should be noted that the CBI also has concerns around the Regulator’s determination regarding the Optional Network Investment proposed by NIE Networks (9.33). The Regulator suggests that “*It is for the company to assess the needs of its consumers including their willingness to pay and the balance of competing priorities in its business plan. In view of this, we have not included this investment in the draft determination*”.

The CBI argues that NIE Networks has already done its part by undertaking a comprehensive stakeholder engagement exercise and presenting the gathered evidence to the Regulator. However, we feel that the Regulator has not fully appreciated that evidence and we hope that the final document will contain further clarification from the Regulator as to why each individual optional investment was not included within the final price control determination. The CBI strongly believes that such comprehensive consumer engagement is something that should be encouraged and given adequate recognition.

In conclusion, the CBI reiterates its support for the vast majority of the draft determination and we recognise the difficulties that the Utility Regulator faces when making a determination without strong policy direction from government. However, we firmly believe it is important that when making the final RP6 determinations the Regulator maintains a proper balance between cost and investment. It is clear that many of the issues facing the energy sector will require innovative solutions which require widespread support.

Yours sincerely



Angela McGowan
Northern Ireland Regional Director
angela.mcgowan@cbi.org.uk
028 9010 1104