

**RP6 licence modifications – NIE Networks’ Response to Statutory Consultation**  
**28 July 2017**

<b><u>FD ref.</u></b>	<b><u>T licence ref.</u></b>	<b><u>D licence ref.</u></b>	<b><u>NIE Networks’ comment</u></b>
262-273		1.1	<p><b><u>Reliability Incentive, RP5 and RP6 Models</u></b></p> <p>These models should be fixed as an integral part of the final determination.</p> <p>The definitions of ‘Reliability Incentive Model’, ‘RP5 Model’ and ‘RP6 Model’ state that consultation may take place before or after the conditions comes into force. It is not clear what consultation is proposed by the UR or what the process is for finalising the models.</p>
	1.1	1.1	Definition of HMRC should reference RP6 instead of RP5.
	2.2 a)	2.2 a)	<p>This states that all monetary figures are nominal, however all prices through the mods are in 2015/16 prices. Suggest wording updated as follows;</p> <p><i>a) all monetary figures in the Annex are stated in 2016 prices unless otherwise stated; and</i></p>
	3.3	3.3	<p><b><u>Maximum Regulated Revenue</u></b></p> <p>Second formula reference should refer RP6Rt=19 not RP6Rt+1</p>
164-180			<p><b><u>Pensions Reopener</u></b></p> <p>The FD is unclear about how the Pension Monitoring Framework (PMF) will operate and the PMF is not referred to in the licence mods. Is it the UR’s intention that licence modifications will be made during the course of RP6 if adjustments to the pensions allowances are deemed necessary?</p>

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9.55-9.58, 9.76	4.34-4.35	4.37-4.38	<p><b><u>Innovation trials</u></b></p> <p>The FD sets a limit of £6.36m for distribution trials to test innovative future investment. However, NIE Networks is concerned that transmission trials would also need to be accommodated within this cap notwithstanding 4.34(c) of the T licence which permits SONI to require NIE Networks to carry out trials.</p> <p>The UR’s assessment of innovation related to <u>distribution</u> only, by reference to NIE Networks’ RP6 business plan submission. This involved the UR taking a view on what it considered would be an appropriate and efficient level of investment in aggregate for such distribution trials. No request for <u>transmission</u> innovation trials was made by NIE Networks, and accordingly the UR did not consider or assess any specific level of investment in respect of any such transmission trials.</p> <p>Transmission allowances for innovation should therefore be determined separately, through the D5 mechanism, and this is reflected in 4.34(c) of the T licence assuming this relates to SONI-driven innovation requirements.</p> <p>Given the £6.36m limit in the FD was assessed only by reference to distribution trials proposed by NIE Networks, it would not be appropriate for the costs for any transmission trials to be included within that limit, particularly given that transmission trials would be at SONI's request, while nonetheless being funded by NIE Networks. Accordingly, the cross reference to the T licence in 4.38 (c) of the D licence should be deleted (i.e. the words "<i>taken together with the total additional allowance that may be determined by the Authority pursuant to paragraph 4.25(b) of the successor transmission licence,</i>"); and similarly the cross reference to the D licence should be deleted in 4.35 (e) of the T licence (i.e. 4.35(e) of the T licence should be deleted).</p>

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	4.11	4.11	<p><b><u>Fixed Depreciation</u></b></p> <p>Formula does not work for Fixed Depreciation. The figures should be extracted directly from the RP6 model which details the depreciation of all assets purchased prior to 30 September 2017. These figures are all quoted in 15/16 prices in the RP6 model. Note that Capex figures will be reported in the RP5 model which the RP6 model will link to. Suggest wording updated as follows;</p> <p><i>For the purposes of this Annex, in each Regulatory Reporting Year t, and for each RAB_X, the fixed depreciation amount (FDEP_X<sub>t</sub>) means the amount representing depreciation of assets acquired pre 30 September 2017 and shall be calculated as follows:</i></p> <p><b><i>FDEP_X<sub>t</sub> = (FDEP_RP6_X<sub>t</sub>) * RPI<sub>t</sub>/RPI<sub>2016</sub></i></b>  <i>Where:</i></p> <p><b><i>FDEP_RP6_X<sub>t</sub></i></b> is, for each RAB_X, the fixed depreciation amount in Regulatory Reporting Year t, as calculated by the Authority in accordance with provisions of the RP5 and RP6 Models, as notified to the Licensee by the Authority.</p>
	4.17 b) v, 6.3 b) vi	4.17 b) vi, 6.3 b) vi	These relate to costs for the Competition Commission and should be deleted.
	4.30		ACTR_X <sub>t</sub> – reference should be to paragraph 4.33.
		4.34	Allowance in Table 4 for t=2024 does not agree to allowance model. Licence shows £60.79m where as it should be £60.376m.
	4.35 c)		Capacity <b>of</b> capability should be capacity <b>or</b> capability.
		4.35	Delete "paragraph 4.34," so that paragraph 4.35 commences "The undereaves volume driven allowance..."
		4.38 h)	Project <b>or</b> or trial should be project or trial.
		4.40	The clause for MVAt has a typo – refers to ‘paragraph 0’ (should be 4.45).

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		4.52	<p>Wrong RPE &amp; productivity figures (Table 9). Amended figures are set out below.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Year</th> <th>Real price effect &amp; productivity factor (RPEPF<sub>t</sub>)</th> </tr> </thead> <tbody> <tr> <td>t=2018</td> <td>0.98309</td> </tr> <tr> <td>t=2019</td> <td>0.97475</td> </tr> <tr> <td>t=2020</td> <td>0.96647</td> </tr> <tr> <td>t=2021</td> <td>0.95826</td> </tr> <tr> <td>t=2022</td> <td>0.95013</td> </tr> <tr> <td>t=2023</td> <td>0.94206</td> </tr> <tr> <td>t=2024</td> <td>0.93406</td> </tr> </tbody> </table>	Year	Real price effect & productivity factor (RPEPF <sub>t</sub> )	t=2018	0.98309	t=2019	0.97475	t=2020	0.96647	t=2021	0.95826	t=2022	0.95013	t=2023	0.94206	t=2024	0.93406
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	5.1	5.1	<p>Annex I is the Excel workbook containing the detailed WACC components alongside an example calculation of how WACC will be recalculated in the event of new debt being raised. There are no provisions set out in this Annex. The provisions and details on the mechanism are in Annex H. Suggested rewording of VWACC<sub>t</sub> definition as follows:</p> <p><i>means the vanilla weighted average cost of capital in Regulatory Reporting Year t and has a value equal to the value specified in Annex I at cell B42 of the Final Determination Paper until otherwise amended by the Authority in accordance with the provisions of Annex H and the calculation as specified in Annex I, and notified to the Licensee.</i></p>																

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150-156 and RP6 model	6.12	6.12	<p><b><u>Allowed opex – Rates</u></b></p> <p>1. The proposed licence mods apply the frontier shift adjustment for RPEs and productivity to the rates allowances, resulting in a reduction in the RP6 opex allowance of c£5m (2015/16 prices). This is a very significant error and should be corrected for the following reasons –</p> <ul style="list-style-type: none"> <li>• the UR’s analysis of RPEs focused solely on NIE Networks’ operational and investment activities (labour, materials, plant and equipment) and ignored rates. Had the UR’s RPE analysis considered rates, the RPEs would have been materially higher: Rates are equivalent to c50% of NIE Networks’ controllable opex, and have increased by more than 25% over the last 10 years in real terms; and</li> <li>• the application of a 1% per annum productivity shift in relation to rates is irrational. The Total Factor Productivity (TFP) indices from which the 1% target is derived do not consider changes in property taxes. The TFP indices bear no correlation to NIE Networks’ rates liability which is calculated based on income and expenditure and regional and district poundage rates which are set by local government.</li> </ul> <p>In addition, the application of the RPEs/productivity adjustment to the rates allowance is a very material change to the approach adopted by the Competition Commission (CC) at RP5. The CC, in determining the RP5 appeal, explicitly rejected a request from the UR that adjustments for RPEs/productivity be included, ruling that such an adjustment would be "<i>inappropriate</i>". Also, at RIIO-ED1 Ofgem did not apply a frontier shift target to the GB DNOs’ rates costs, which were treated as a pass through item.</p> <p>We would have expected the UR’s change in approach to have formed part of the RP6 consultation process, in particular given its materiality. Contrary to the requirements of the Electricity (Northern Ireland) Order 1992, the error is not apparent from any public consultation notice (including the published Draft Determination, the Final Determination and the Licence Modifications Consultation Paper), nor has the UR provided any reasons for its change in approach or a statement as to its effect. The error resides in a formula within a spreadsheet that was provided to NIE Networks which converts the allowances in the Final Determination to the terms which are used in the licence. Indeed the error was only identified by NIE Networks on 6 July as it attempted to reconcile the proposed licence mods with its financial model.</p> <p>2. The FD notes that the UR would be willing to consider an increased allowance if the rates cost increases as a result of the NS interconnector. FD is not clear whether this is via D5 or would require licence mods (ref P156, para 6.104, 6.121, 13.48).</p>
	6.15	6.15	The RR <sub>i</sub> term should be removed as it is not relevant for RP6.

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	9.1	9.1	For the reasons cited above in respect of VWACC <sub>t</sub> amendments, the following wording is proposed for NCOD definition:  <i>means the notional nominal cost of debt in Regulatory Reporting Year t and has a value equal to the value specified in Annex I at cell B19 of the Final Determination Paper until otherwise amended by the Authority in accordance with the provisions of Annex H and the calculation as specified in Annex I, and notified to the Licensee.</i>
	9.1 CA <sub>t</sub> (vi)	9.1 CA <sub>t</sub> (vi)	This should reference RP6 Model instead of RP5 Model.
	11.1	11.1	Remove the words “and for the closure of the RP5 period” in the first sentence.
	11.1 (a)	11.1(a)	The formula and wording for $K_t = 2018$ is misleading. The following wording is suggested to provide clarity around the calculation for $K_t = 2018$ .  a) in Regulatory Reporting Year $t = 2018$ i.e. regulatory reporting year ending 31 March 2018:  <b><math>K_t = KRP5</math></b>  Where:  <b>KRP5</b> means the closing K factor for RP5 i.e. 30 September 2017 which will be calculated by the Authority in accordance with provisions of the RP5 Model, as notified to the Licensee by the Authority.
	12.20	12.20	The date referenced should be corrected to 31 March 2012.
	12.23	12.23	The date referenced should be corrected to 1 October 2017.
	12.27	12.27	The reference to the Competition Commission should be updated to the “Authority”.