

NORTHERN IRELAND ELECTRICITY PLC

**NIE's Response to the Utility Regulator's Consultation on
Electricity and Gas Retail Market Competition in
Northern Ireland**

April 2008

24 June 2008



INTRODUCTION

This paper sets out Northern Ireland Electricity's (NIE) response to the Utility Regulator's Consultation on Retail Market Competition published in April 2008. NIE believes that it is timely to re-examine retail market issues, in light of the recent implementation of the NI 2007 "Interim Solution" which was the first step in opening the domestic market to competition, the absence of any new domestic market entry to date and the degree of uncertainty as to the best way to develop the market going forward. Comments are set out under the following headings:

1. Scope of This Response.
2. Policy Issues and Impact on NIE.
3. The Enduring Solutions Options Study (ESOS) Project.
4. Resolving Legacy Issues.
5. Industry Engagement.
6. Credit Cover.

NIE is the licensed entity that, in addition to providing transmission and distribution services, also provides support services to all retail market participants. One of NIE's principal areas of focus is to ensure that the required support services are provided in a cost effective manner. In relation to the present consultation, NIE's main concern is to ensure that technical constraints on further retail market development, which relate primarily to certain legacy systems, are resolved in a timely manner so as to ensure that the systems to support whatever policy decisions are made by the Utility Regulator following the consultation are capable of delivery within realistic timescales and offer best value to customers.

1. Scope of This Response

The regulatory focus is to take "a first step to developing a strategy for making further competition a reality in the NI energy retail markets, and for ensuring that suppliers can take full advantage of the new arrangements designed to promote competitive markets"¹. Whilst the scope covers both gas and electricity markets, our response will focus specifically on factors influencing electricity retail market development.

The items that are covered in this response are firstly, those issues that are raised in the Consultation Paper of relevance to NIE and secondly, the implications of those issues in terms of systems and processes.

The issues discussed in the Consultation Paper that are most relevant to NIE are the synchronisation or harmonisation of retail market arrangements, switching systems capacity, the quality and availability of customer data, and credit cover requirements with suppliers. In terms of NIE's responsibilities, the main implications of these issues are their impact on systems and processes and the timescales for resolving them. This response focuses primarily on systems and process and relevant policy issues

¹ Consultation Paper, Executive Summary, Paragraph 3.

for NIE. In Appendix 1 we have responded to a number of questions raised specifically in the consultation document.

2. Policy Issues and Impact on NIE

The Consultation Paper rightly focuses on policy issues, and the list of issues of direct relevance to NIE, set out above, is only a subset of the full list of issues that the paper addresses. It is important to recognise, however, that technical matters associated with the appropriate systems and processes to support further retail market development also need to be taken into account. In particular, NIE presently operates a series of legacy systems that were initially developed to support an integrated utility. Whilst they have been amended as part of the NI 2007 programme to support an agreed level of retail market activity, they still constrain that activity; for example, they impose a limit to current switching capacity. Those limits were discussed in the Suppliers Interface Group (SIG) and were agreed and documented as part of the “interim solution” for retail market systems implemented in November 2007.

These legacy systems also constrain further retail market development. Ways in which to resolve them are a key element of the Enduring Systems Options Study (ESOS).

3. The ESOS Project

Commissioned by the Utility Regulator, ESOS is operating in parallel with the Utility Regulator’s retail market consultation, to inform the analysis of barriers to entry and to provide costed options to support policy choices. The ESOS project began in April 2008 and is planned to deliver its final report to the Utility Regulator in September 2008, in order to inform final decisions on policy regarding further retail market development. As well as reporting to the Regulator, NIE expects to inform industry stakeholders of progress through regular updates to the SIG forum

The ESOS project will consider future market scenarios, with guidance and focus from the Utility Regulator, and will develop costed technical options to resolve a number of issues:

3.1 Harmonisation

The Study will consider how best to support further harmonisation (synchronisation) of arrangements between Northern Ireland (NI) and other jurisdictions – with particular focus on the Republic of Ireland (RoI). Harmonisation is a complex area. NIE is of the view that the term will cover a wide range of development areas from ensuring that suppliers experience as little difference as possible when operating in either jurisdiction (i.e. common messaging) through to adoption of common core systems – the latter being potentially a very sizable task. Associated issues, such as differing legislative, licence and code requirements, also govern what further level of harmonisation can be considered. Timescales are important, as a number of harmonisation proposals would require joint changes in both NI and RoI before they could be implemented. The Study will therefore determine how best to plan for, as yet uncertain, harmonisation proposals that may emerge over the next 12 to 18 months. In its later stages, when considering outline timescales for further work, it will also determine an appropriate point in time for decisions on harmonisation to be finalised, consistent with the overall development and implementation of the enduring solution.

3.2 Capacity Constraints

The Study will examine in detail the existing constraints that result from continuing dependence on legacy systems and processes and determine how they may be relaxed at minimum marginal cost. Initial analysis suggests that there is a range of technical options that would support a more dynamic enduring solution, but they all require withdrawal from legacy systems.

3.3 Data Transparency

NIE has noted the comments in the Consultation Paper regarding data availability and transparency. In principle, NIE wishes to supply whatever data is appropriate, but there are two constraints to be noted. The first is that the Data Protection Act (DPA) limits the amount of data that can be supplied to third parties, especially in relation to individual customers; different regulations apply in RoI. The ESOS project will examine what can be done within the restrictions imposed by the DPA. The second is that access may be governed by system issues, such as appropriate interfaces, and the ESOS project will also consider how best to improve access accordingly, for example through modern methods such as web-based access to appropriate data files (which also require the attendant security concerns over such access to be addressed).

3.4 Business Separation

The Study will examine how best to enable full separation of NIE Energy (Supply) from the present position of partial sharing of systems and processes. The Study will consider how to ensure equality of treatment of all suppliers, and whether this can be done on existing legacy systems, which involve a significant degree of sharing, although with controls on data access, or whether physical separation of systems is necessary to support business separation.

3.5 Other Issues

The ESOS work will investigate a variety of other issues and determine their potential impact on whatever emerges as the enduring solution. Some of these, such as 'smart' metering, are not known with any precision in terms of requirements, and the Study will look at aspects including the cost-effectiveness of planning for future flexibility to deal with a range of potential requirements. Others, including a move to global settlement² involve known requirements but an uncertain timetable and the Study will consider timing as well as delivery options. Some key processes must be assessed - for example changes to UoS billing arrangements will be required to facilitate higher levels of customer switching – this is fundamental to an enduring solution designed to support higher levels of market activity.

4. Resolving Legacy Issues

A cornerstone of the ESOS project is the need to resolve the constraints imposed by certain legacy systems that are approaching technical obsolescence – this is

² Global settlement is where the metered data of all suppliers is submitted to the Single Electricity Market Operator (SEMO) to enable wholesale market sale and purchase transactions to be calculated. Settlement by differences, the present approach in Northern Ireland, involves the demand for NIE Energy (Supply) being calculated as the differences between generation output (adjusted for losses and interconnector flows) and the metered data of the remaining suppliers.

necessary in order to develop pragmatic solutions for further retail market development.

It is our early view that a programme of work to resolve current constraints and provide a platform for further market development - e.g. the removal of capacity constraints (which relate to both total capacity and the limits of switching rates) and the introduction of further harmonisation of supplier arrangements – will take a minimum of three years to implement from the point at which the future solution is agreed. At present the requirements that would arise from the introduction of smart metering cannot be defined, although it is highly likely that the time to implement primary smart metering system requirements within an enduring solution would extend beyond this 3-year timeline.

5. Industry Engagement

NIE wishes to understand the future aspirations for retail market development of all stakeholders, including suppliers, regarding for example the maximum rate of customer transfers, both monthly and in total, and the appropriate level of synchronisation of systems and processes. Part of that understanding will be gained from scrutiny of responses to the Utility Regulator’s public consultation.

In addition, during the course of updates to the SIG industry forum, NIE has been asked to engage in a workshop session with suppliers in order to understand better their views on issues including synchronisation, and this engagement has been agreed with the Utility Regulator. Work is in hand in relation to this workshop.

A key issue for the workshop will be to what extent further harmonisation (synchronisation) is desired by participants, and is feasible within sensible timescales, in line with the discussion under Section 3 above.

6. Credit Cover

Chapter 4 of the consultation paper includes an assessment of current credit cover arrangements concluding that “the credit cover arrangements as currently provided for would not in fact be a material barrier to entry”.

The present arrangements were introduced in 2005 following a review by the Utility Regulator. This review determined that the level of security cover for which letters of credit are required be reduced from three months to five weeks.

We concur with the Utility Regulator’s view, resulting from consultations during development of the SEM, that the current credit cover arrangements, based on the “5-week rule”, do not constitute a barrier to entry. It is noteworthy, in this regard, that the corresponding requirements in RoI are more stringent (the amount of security cover for DUoS charges being based on an estimate of charges over a 2-month period).

Appendix 1

NIE's Response to Specific Questions Posed in the Consultation

Q1: (Ch 3) Do respondents agree with our overall summary of NI energy retail market competitiveness and do you feel we have missed anything of significance that should have been noted at this stage?

NIE recognises the overall summary position presented in the consultation document.

Q2: (Ch 3) Are there additional indicators of the current state of competition in the retail markets that we should be considering?

NIE is of the view that the consultation document recognises the principal indicators as reflected in the barriers to entry analysis.

Q3: (ch 4) Do respondents agree that the analysis has identified the major potential barriers to competition in the domestic and non-domestic electricity markets or are there additional barriers that you feel we should take into consideration?

Whilst we feel that the principal barriers have been identified, we consider that process and system capacity constraints agreed as part of the NI 2007 'interim solution' may require more prominence. These issues are being addressed in the ESOS work.

Q4: (ch4) Do respondents agree that the analysis has identified the major potential barriers to competition in the domestic and non-domestic gas markets or are there additional barriers that you feel we should take into consideration?

As noted in the scope of this response, NIE is not commenting on matters relating specifically to the gas industry.

Q5: (ch 5) Have we missed anything important in relation to potential actions - are there additional regulatory actions that the Utility Regulator should consider beyond those described above?

NIE is of the view that the list is sufficient, providing that the issue of addressing process and technical constraints is addressed as a priority matter.

Q6: (ch 5) Do you agree with the initial assessment of the impact of the proposed regulatory actions on the electricity and gas retail markets? Do you think we have materially mis-estimated potential impacts?

NIE's interaction with suppliers through the Supplier Interface Group (SIG) suggests to us that harmonisation (synchronism) may merit more weight in the assessment.

As indicated above, we are also of the view that addressing capacity constraints will have a significant impact in enabling further retail market development.

Q7: (ch 6) Do respondents agree with our analysis above in relation to scenarios and their interplay with options, and with our proposed actions?

As noted above, NIE is of the view that the relaxation of technical constraints is also important. This will be addressed partly through a focus on harmonisation and data transparency in the ESOS work, but may need greater emphasis more generally.