

**Utility Regulator Consultation on  
Electricity Licence Fee  
Methodology**

**NIE Energy Supply's Response**

19 November 2010



## **Introduction**

NIE Energy Supply (NIEES) welcomes the opportunity to respond to the recent electricity licence fee consultation.

The Utility Regulator (UR) has outlined a number of key factors such as cost reflectivity, industry structure and transparency which will influence an eventual decision. NIEES have reviewed the proposed criteria and regard their use as appropriate.

## **Options**

The UR describes four options in the consultation paper which could be applied in 2011/12 –

- 1) Minor changes to the current process
- 2) The CER methodology
- 3) The Ofgem methodology
- 4) Continuing the existing arrangements unchanged

NIEES has considered each of the UR proposals from a Supplier perspective and would like to take this opportunity to make the following comments:

### **1) Current process with a number of minor changes**

Under this proposal the UR would continue to recover 1/3 of its costs and the CCNI requirement from Suppliers based upon volumes. Generation charges would be based upon declared net capacity; the “dormant” de-minimus fee would be increased in line with RPI and applied to the Transmission System and Market Operators. An additional aspect is the implementation on a financial year basis.

NIEES believes that these changes reflect common industry terminology and financial operation.

### **2) The CER methodology**

This methodology collects charges on a quarterly basis based on estimated trading point volumes and resettlement of previous quarters.

NIEES views this approach as excessively administrative requiring significant forecasting, settlement, resettlement and input from various organisations to enable the recovery of what should be a simple and transparent cost.

### **3) The Ofgem methodology**

Ofgem recover their costs directly from holders of transmission and distribution licences and allow these charges to be treated as pass through.

To apply such a methodology within the Northern Ireland market would result in recovery from Northern Ireland Electricity and SONI. These charges would in turn be recovered through distribution and transmission use of system tariffs. As this would be only one of a number of factors which go to make up such levies, NIEES believes that applying such a methodology would reduce the transparency of the licence costs. NIEES therefore view this as an inappropriate solution.

#### **4) Continuing the existing arrangements unchanged**

The existing process has been in place for two years and reflects the changes within the electricity industry especially post 2007. Maintaining such an approach would meet the consistency and transparency criteria used to assess the various options.

#### **Recommended Approach**

NIEES considers the enhancements to the current methodology to be the most appropriate method of applying the electricity licence fee. This process meets the majority of the key criteria while not imposing any significant administrative or settlement burden on industry participants. NIEES therefore recommends that the UR adopts this approach.