

**NIE Energy Limited
Power Procurement Business (PPB)**

**Development of NIAUR
5 Year Corporate Strategy :
Consultation on Key Issues
(27th June 2008)**

Response by NIE Energy (PPB)

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Introduction

NIE Energy Power Procurement Business (PPB) is pleased to have this opportunity to contribute to the development of the Utility Regulator's 5 year corporate strategy, which we welcome as a constructive step towards providing more visibility for market participants of the way forward for regulatory strategy.

Challenges and Opportunities

From PPB's perspective, the strategy needs to reflect the following key challenges:

- Market power / dominance. Whilst this is a SEM matter, it must also be on the NIAUR agenda because of its significance for NI customer prices.
- The interfaces with GB. The efficient management of GB interfaces, e.g. the NTS entry/exit reform arrangements, is another critical regulatory area that should be a priority for the Utility Regulator.
- We believe that the Utility Regulator should also be engaging directly at an EU level (e.g. participation in CEER) such that Northern Ireland interests are fully reflected rather than have to rely on Ofgem representation.

Wholesale Markets

The strategy document raises a number of key issues in relation to generation security including fuel mix, the potential for new and additional generation capacity, and enhanced connection of renewable generation. The issue of contract cancellation also needs to be included within this wider discussion given the key role that the Utility Regulator has to play in determining if/when the legacy Power Purchase Agreements are to be cancelled.

The required revision of the Fuel Security Code (the March 2008 consultation paper refers) remains outstanding and consequently leaves a risk to security of supply. It is essential that this is concluded successfully at an early date.

The issues raised by MIFID, which are the subject of ongoing discussion between PPB and the Utility Regulator (and the SEM Committee), should be included within the corporate strategy, perhaps within a general strategy aim to avoid dual or overlapping regulation involving both energy regulation and financial regulation.

As referenced above, the proposed NTS entry and exit reform is a critical issue (for both NI and RoI) and should be included in the strategy document.

Finally, we consider that the reference to Belfast West is too narrowly focused. It would be more appropriate in a strategy document to refer to the need to examine the strategic role of Land Bank and the customer benefits that it may provide.

2020 Issues

Looking towards 2020, we see a priority focus for the Utility Regulator as being to work on behalf of customers within the wider policy context to promote efficient consumption (across electricity, gas and water).

The paper highlights the fact that Northern Ireland will be more “connected” to GB by 2020. In our view the key regulatory question that this raises for NI customers is not whether energy imports are sourced from nuclear generators but rather “how in the context of more interconnection, or indeed a wider IME, will efficient utilisation of interconnection and efficient inter-market (regional) trading be assured?” The Utility Regulator should play the key role in addressing this question.

Conclusion

PPB welcomes this consultation and trusts that the 5 Year strategy document, when finalised, will be well received by industry participants. As a general comment we consider it essential that the plan sets out clearly the Utility Regulator’s strategic objectives for the next 5 years and a programme (which may have to be indicative in some cases) for achieving each such objective. In order for the Industry to have confidence in regulatory strategy, it is important that the 5 Year plan is not viewed as a wish list. Consequently, it needs to be sharply focused, with an emphasis on how successful outcomes will be engineered, including how the Industry, and indeed other departments of Government, will be involved.