

Northern Ireland Electricity plc

**Development of the Utility Regulator's
5 Year Corporate Strategy :
Consultation on Key Issues
(27 June 2008)**

NIE's Response

19 September 2008.



Introduction

The Utility Regulator's intention to adopt a 5 year corporate strategy is a positive initiative designed to assist it in developing a clearer strategic stance. NIE is pleased to offer comments on the consultation paper, and does so primarily from its perspective as owner of the transmission system and owner and operator of the distribution system in Northern Ireland.

Q1 Challenges

The Utility Regulator has identified the following challenges that influence its work: sustainability and environmental challenges; social challenges including fuel poverty; the new water regulatory regime; security of supply; and the small scale of the NI market.

Question 1. We would welcome views as to whether there are other significant challenges which we ought to have reflected here.

The Utility Regulator's annual report for 2007/08 observes that "stakeholder expectations of the regulator are rising" and so we would suggest adding to this list the internal challenge for the Utility Regulator to continue to develop its 'corporate ethos' particularly as regards the way in which regulatory transactions are processed. While the 5 year corporate strategy is a welcome initiative, we would encourage the Utility Regulator to strive for shorter timeframes, set reasonable timescales for responses and adhere to them, have the necessary flexibility around its Board processes with the appropriate level of delegation from Board to Executive level; and continue to develop "in-house" expertise and become less dependent on external advisors.

Q2 Opportunities

The paper identifies the following opportunities for the Utility Regulator: learning from regulatory best practice, operating on a cross-utility basis; harnessing the growing social pressures; maximising all-island opportunities and wider European market integration; technological developments (including smart metering) and maximising the strengths of its organisation.

Question 2. We would welcome views as to whether there are other significant opportunities which we ought to have reflected here.

NIE regards the adoption of regulatory best practice as particularly important for ensuring a regulatory regime that is predictable and which minimises uncertainty. Regulated utilities attach importance to their regulator demonstrating adherence in practice to the five principles of best regulatory practice - transparency, accountability, proportionality, consistency and targeted. For example, we look for regulatory decisions that are based on data and information to which the affected licence holders have access. In addition, familiarity with, and taking full account of precedents set by other regulators can avoid "re-inventing the wheel", although we acknowledge that in some cases tailored solutions may be appropriate.

Q3 & 4 Context factors

The Utility Regulator highlights a number of key “context” factors that will influence its work and strategic direction in the coming period, including: rising prices; all-island energy developments; the new water and sewerage regulatory regime; EU-level factors; environmental sustainability; technological and informational advances; gas; and its own organisational development.

Question 3. We would welcome views as to whether there are additional significant context issues which we ought to have reflected here.

Question 4. We would welcome views as to whether there are significant issues within the context issues which we ought to have reflected here.

There is nothing that we would suggest adding to this list, but within these factors there are a number of issues we would like to comment on, which we do in the following sections.

Strategic Themes and Priorities:

Q5 Wholesale

Security of supply; high and volatile fuel costs; liquidity of contracts and the Belfast West site are highlighted by the Utility Regulator as strategic themes on the wholesale side.

Question 5. We would welcome views as to whether there are other significant wholesale issues which we ought to have reflected here.

We agree that there is a need to define the capability, optimum grid investment requirements and the best practical way forward for enhanced connection of renewable generation, notably wind power, onto the grid. NIE will continue to work with the Utility Regulator in these areas. Issues such as underground vs overhead construction and arrangements for the sharing of costs for a cluster of windfarms need to be resolved and these could be identified as sub-issues within the strategy document.

Q6 Network

The strategic themes and priorities which the Utility Regulator has identified on the electricity network side are: how to build the “green agenda” into network policy making and decisions; metering; the future direction of “all-island” energy work and utility network financing issues. We offer some brief comments on each.

Question 6. We would welcome views as to whether there are other significant network issues which we ought to have reflected here.

The green agenda

Connecting embedded generation in the amounts required to achieve Government's sustainability targets presents a number of technical challenges.

These include voltage rise, quality of supply issues, and the physical capability of our existing network assets. These are complex issues which require further work to find the optimum solutions. NIE's Sustainable Networks Programme is part of our response to the sustainability challenge. The programme seeks to draw learning from established industry research programmes in GB currently focused upon meeting the challenges of increased renewable generation connected to distribution systems and ascertaining how best to apply those developments to the Northern Ireland network.

The recent All Island Grid Study pointed towards connecting further significant amounts of renewable generation to the power networks throughout Ireland. In Northern Ireland this is likely to be in the order of a further 1,000 MW, although that is currently a best estimate. If this is to be achieved there will need to be substantial investment in the Northern Ireland transmission system. A particular area which we believe the Utility Regulator could include as a strategic target is to encourage the necessary co-ordination between Government departments in order to facilitate transmission network development to accommodate the penetration of renewables. In this context we have previously suggested that there may be merit in a debate as to whether the Utility Regulator should have a power, subject to appropriate constraints, similar to that which the Federal Energy Regulatory Commission (FERC) has, to intervene if planning permission is not secured for critical infrastructure developments.

Metering

NIE recognises the emergence of smart metering and its cross-utility dimension as a strategic priority. We are currently in discussions with the Utility Regulator concerning the best way of conducting trials of appropriate smart metering technology including the prospect of an evaluation of multi-utility metering technologies in Northern Ireland. We will continue to support the Utility Regulator to ensure that the case for smart metering is evaluated thoroughly and we will be pleased to be involved in implementing the most appropriate arrangements when these are established. We would encourage the Utility Regulator to continue to interact regularly with NIE and the industry stakeholders in this regard.

The future direction of "all-island" energy work (network issues)

The N-S Interconnector is the key project within this workstream. We believe that the Utility Regulator can play an important role by continuing to work with NIE to facilitate the project and we would have liked to see it feature more prominently in this section of the strategy document.

Utility network financing issues

In recognising the diversity in the ownership models of Northern Ireland's main regulated utility assets, the Utility Regulator plans to undertake a strategic review of the mutualisation model and its applicability to other investments.

Mutualisation is a model which other regulators eschew or of which they are at least properly wary. With an increasing accumulation of strategic energy assets within the relatively unproven mutualisation model as represented by Northern Ireland Energy Holdings (NIEH) the potential for systemic energy industry failure is a serious issue. Ofwat have recognised these highly geared structures as potentially "unsustainably brittle" and the impact of failure is all the greater where there is a concentration of assets within them.

There may also be a concern whether in Northern Ireland, where there is a significant enterprise deficit, it is appropriate to encourage the appropriation of assets by semi-public structures, where those assets can otherwise be owned and managed efficiently in the private sector. A principal objective of public policy should be to encourage private enterprise and entrepreneurship.

We note that a formal review of the corporate governance arrangements of NIEH is underway.

Q7 Retail

The strategic themes and priorities which the Utility Regulator has identified on the retail side are: moving towards de-regulation; customer interfaces; metering; retail competition; fuel poverty and social action.

Question 7. We would welcome views as to whether there are other significant retail issues which we ought to have reflected here.

NIE's Enduring Solutions Options Study (ESOS) will provide important input into the strategic decisions to be taken by the Utility Regulator on the development of retail competition in the electricity market, and merits mention.

Similarly, under the fuel poverty heading, we consider there is merit in mentioning the Vulnerable Customer Programme (aka For Your Benefit) which NIE is funding. This programme, which aims to help combat fuel poverty by assisting low income households to maximise their incomes by identifying and claiming unclaimed benefits, delivered some notable results in 2007/08 including: 1,849 benefit entitlement checks; 42% of customers identified as being entitled to additional benefits averaging £36 per week; and typically £1 of investment by NIE identified £13 of unclaimed benefit for customers.

Closing comments

The development of a 5 year corporate strategy is a constructive step forward by the Utility Regulator. It is appreciated that some areas of corporate strategy have still to be finalised as they are dependent on progress elsewhere, notably at the SEM Committee. In particular, the document is short on how the Utility Regulator will work with DETI and government in developing and implementing its strategy.

We do believe that the final 5 year strategy document will need to be sharply focused. To this end, we consider it important that the final version sets out clearly

the Utility Regulator's strategic aims over the planning period and a timetable for achieving them.