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16 February 2021

Dear Briege,

Draft Forward Work Programme 2021 – 2022

Power NI welcomes the opportunity to respond to the recent draft Forward Work Programme (FWP) published by the Utility Regulator (UR).

This year's FWP is set against what has been a challenging year, with the Covid-19 pandemic, Brexit and the development of DfE's new energy strategy. All of which are over and above what could be termed the 'business as usual' features of the energy market.

Power NI welcome that the 2021-2022 FWP is as expected and contains no regulatory shocks. It follows on from previous FWPs and is consistent with the UR's Corporate Strategy. It remains an ambitious programme for work, particularly given the current climate and Covid 19 pandemic.

The 2021-22 FWP contains several strategic important projects which have a direct impact on Power NI.

- **The Retail Electricity Market**

The UR has highlighted that it will continue work to ensure that it balances competition with consumer protection and promote markets that deliver effective competition, informed choice and fair outcomes. Power NI fully supports this aspiration.

- Consumer Protection

The UR's Consumer Protection Programme has several projects to be completed. Power NI has engaged with the UR throughout the Consumer Protection process and will continue to work with the UR to deliver the detailed goals of the programme.

Power NI welcomes the work already completed to date on Consumer Protection as with last year however, it is disappointing that the UR's review Guaranteed Service Standards (GSS) has not yet concluded.

The GSS regime offers an opportunity to define how NIE Network's provide network related services to customers both in terms of general reliability and quality as well as services requested via the customers supplier. At present there is little reporting or transparency in relation to NIE Networks performance against the GSS and no opportunity for suppliers to input into or change the setting of standards. Suppliers have the most interaction with customers and any perception of poor service by NIE Networks is reflected on the supplier. It is therefore crucial that the UR implement a process which facilitates scrutiny and review. Power NI strongly urges the UR to address this especially given the increased focus on NIE Networks performance brought about by the Back-Billing Decision which went live on 1 October 2020.

- Price Control Review

In December 2016 the Utility Regulator (UR) concluded Phase II of its 'Review of the Effectiveness of Competition in the Northern Ireland Energy Retail Market' and in a Decision Paper entitled Regulatory Implications communicated an intention to monitor the retail electricity market and implement one of four identified options should it decide to end price regulation. Power NI strongly believes that it is inherent upon the UR to conclude the process undertaken under the heading of 'review of the effectiveness of competition'.

A wide range of market protection enhancements have taken place since 2016 against a backdrop of retaining the significant regulatory controls placed upon Power NI. Controls including domestic price regulation and non-discrimination licence conditions which are only applied to Power NI, despite a declining domestic market share.

As the UR is aware, the nature of the regulated domestic electricity price and the associated licence conditions restrict what Power NI can offer domestic customers by way of contracts, offers, discounts, incentives etc. and limit Power NI's ability to compete with other suppliers on an equal basis. The recent consultation on changes to the Marketing Code of Practice highlight just how much of a disadvantage Power NI are in terms of being able to compete effectively in the market. Power NI again urges the UR to progress the work in relation to the regulatory framework surrounding the Northern Ireland Electricity Market and provide a clear roadmap which gives certainty to all stakeholders.

- Innovation in energy markets and licences

The anticipated new Strategic Energy Framework and development of the energy transition will require new and innovative regulatory approaches. Innovation will come from electricity suppliers who have both the relationship with the customer and the inherent ability to offer

aggregated routes to market. The immediate difficulty is that in many instances and in Power NI's case, the electricity licence regime either restricts or prevents solutions being brought forward.

As the UR is aware Power NI has, particularly in the last year, put forward a number of innovative projects which required regulatory approval and a review of licence conditions to enable them to proceed. Whilst the approval of such projects has been welcome, the timescales for this approval has been long and at times putting Power NI at a competitive disadvantage.

Whilst this issue is acknowledged in the FWP, Power NI believes more immediate licence amendments are required in parallel to a longer term fundamental review of the electricity supply licence. To fail to address this issue will not foster an innovation culture and risks the UR becoming a blocker to innovation, the energy transition and at odds with the Strategic Energy Framework.

- **Security of supply and low carbon future**
 - **Consumer Centric Energy Strategy to help deliver net zero**

The Net Zero target will be challenging for Northern Ireland given the significance of agriculture in our economy, our reliance on oil for heating, the energy efficiency of our housing stock, the transportation infrastructure, prevalence of private cars and our relatively small highly dispersed population. Consumers need to be placed at the centre of whole systems approach to the energy transition and Power NI welcome the inclusion of this strategy within the FWP.

Discussions in relation to the energy transition can often focus on grid development, smart technologies and niche or speculative schemes. At the heart of the energy sector are customers who ultimately pay for all of the upstream activities and to achieve the net zero target it is customer behavioural changes which will ultimately determine whether that target is met.

Customers will need support, information, choice and incentives to change behaviours. It is however important to recognise, understand and reflect that customers are not a single homogenous group. Customers will want a range of options which so that they can decide what meets their particular needs. Some customers will want to become fully immersed in the energy market, becoming prosumers willing to respond to real-time signals and actively manage their load. Others will want to be informed and have a good understanding of their usage while others will not be particularly interested in energy and require protection and confidence in the operation of the market. All customers however will be interested in the price they pay for their energy.

Power NI would call on the UR to ensure that work on the customer centric strategy is prioritised, so that customers are not left behind, particularly those most vulnerable.

- **Develop NISEP quality standards and an appropriate quality assurance approach**

Power NI has been actively involved with the NISEP scheme and the Energy Efficiency Levy for over 16 years. It is undeniable that NISEP has made a positive contribution in helping customers, often those in financial difficulty or need reduce their energy consumption and ultimately their bills. Work within the home however is 'personal' to customers; and trust, reputation and delivery is key to enabling success. If any scheme delivers poor outcomes within the home or leaves the customer unhappy, the reputation of the scheme suffers, word spreads quickly and uptake could dry up.

Power NI welcome the UR's plan to develop quality standards and an appropriate quality assurance approach for NISEP. The need to develop clear guidance for all involved is key to the success of the scheme going forward. Power NI would also be keen to ensure that quality standards are developed with the need for quality monitoring to be carried out independently from any organisation responsible for scheme management or installing measures etc. There should be clear quality monitoring guidance with quality checks completed on all installers and samples of measures installed.

In introducing enhanced quality standards, UR must also recognise the additional time, effort and cost that a proposed new approach may place on Primary Bidders and allow for this to be considered in the application process for funding.

- **Enabling 21st century networks**
 - **DUoS Charging Review**

Power NI understands that the UR's FWP project in this area relates to the allocation of costs and the approach to DUoS charging. While welcoming this area of focus, Power NI would urge the UR to also review the process and timing of setting DUoS network tariffs. Power NI raised this issue last year and there is little evidence of any progress.

To again reiterate the issue, from a supplier perspective there appears to be a complete disconnect between the regulatory tariff obligations placed on suppliers via licence conditions, and those placed on the Transmission and Distribution System Operators.

Suppliers have strict notification timelines for communicating any tariff change to customers. In relation to the price controlled domestic tariff with its additional verification and communication obligations, this begins circa 6 weeks prior to implementation. Unfortunately, there appears to be no reciprocal obligations placed on either Northern Ireland Electricity Networks as Distribution System Operator or SONI as Transmission System Operator and significant delays in the publication if network tariffs have been witnessed.

Such delays show no regard for the risk placed on suppliers. Tariffs are being set based upon assumptions when firm numbers should be known. When rates are not aligned with assumptions this creates significant financial risk and tariff volatility.

Suppliers will always accept that underlying wholesale costs can be volatile and will change due to world fuel price movements, and in most instances proactively set about minimising such risks through proactive hedging. Network costs and levies however should be known and stable. It is inequitable for monopoly providers who enjoy absolute tariff protection to publish rates a matter of days before they are effective, while those participating in a competitive market and serving end consumers are left to carry the risk such a delay creates.

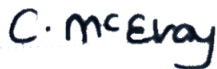
Power NI would welcome the Utility Regulator reviewing the network tariff and levy setting process with the goal of ensuring that such rates are published in July ahead of an October effective date. Such a timetable would be to the benefit of both retail market participants and would increase transparency of end tariffs as assumptions would be reduced.

Conclusion

Power NI is committed to working constructively with the UR across the range of projects referenced in the FWP and hopes that the UR will address those issues highlighted above.

Should you wish to discuss the content of this response please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink that reads "C. McElroy". The signature is written in a cursive, slightly slanted style.

Claire McElroy
Power NI