

**Northern Ireland Electricity Transmission
and Distribution Price Controls 2012-17
Draft Determination**



Campaigning for Warm Homes

NEA NI Consultation Response

July 2012



Northern Ireland Electricity Price Controls 2012-17: Draft Determination

National Energy Action Northern Ireland (NEA NI) welcomes the opportunity to respond to this consultation from the Northern Ireland Authority for Utility Regulation (NIAUR) in relation to the 'Northern Ireland Electricity Transmission and Distribution Price Controls 2012-17: Draft Determination'.

NEA is the fuel poverty charity working throughout the United Kingdom, with offices in each of the devolved administrations.

Progress had been made in reducing Fuel Poverty in Northern Ireland between 2001 and 2004 (from 27% to 23%), but by 2006 the rate of fuel poverty had increased to 34%; largely as a result of the very significant increases in the price of fuel.

The most recent Northern Ireland House Condition Survey 2009, carried out by the Northern Ireland Housing Executive, states that some 44% of households in Northern Ireland are now in fuel poverty¹. The Survey also indicates the differing levels of fuel poverty in each of the housing tenures in Northern Ireland. The Survey states that 40% of people living in owner occupied accommodation are in fuel poverty, 55% of people living in private rented accommodation are in fuel poverty, and 51% of people living in social housing are in fuel poverty².

¹ Northern Ireland House Condition Survey 2009

² Northern Ireland House Condition Survey 2009



Introduction

NEA NI recognises' the importance of this price control process to customers, especially vulnerable customers in Northern Ireland. NEA NI welcomes the opportunity to comment on this process and raise issues of concern at this time, before a final determination has been reached.

The outcome of this Draft Determination will constitute 24% of consumers' bills in the next 5 years of this price control. It is therefore imperative that any determination represents the best deal for consumers in Northern Ireland; customers should not be paying anymore than is necessary for domestic electricity bills. Hence the importance of such an opportunity to feed into this price control discussion is keenly felt in a context of rising fuel poverty in Northern Ireland.

NEA NI commends the detailed investigation, by the Northern Ireland Authority for Utility Regulation (NIAUR) of the Northern Ireland Electricity Transmission and Distribution Ltd (NIE T&D) submission. The forensic scrutiny of this price control is evident in the Draft Determination paper. NEA NI is reassured by the significance placed by the NIAUR, in the Draft Determination paper, on its role and function in the protection of customers in Northern Ireland.

As outlined above, establishing a fair and affordable tariff price for electricity is of crucial importance to those experiencing fuel poverty. NEA NI calls on the NIAUR to ensure that NIE T&D price control 2012-17 reflects the principles of fairness and affordability for consumers in Northern Ireland.



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We are aware of the importance of NIE T&D to remain a viable business and based on the information presented in the Draft Determination paper, we are confident that the price control suggested by the NIAUR will allow NIE T&D to remain as such.

We believe the price control model proposed by NIAUR will allow NIE T&D to provide a reliable supply of electricity, whilst allowing the customer to benefit from any efficiencies that have been identified.

The table below shows the NIAUR proposals for the current NIE T&D price control (RP5). NEA NI notes the substantial differentials, some 60%, in the NIAUR's proposals and the revenue requests by NIE T&D. If the NIAUR proposals are accepted this will result in a £24 reduction in the electricity bills of domestic customers.

NIAUR Proposals for NIE T&D price control 2012-17³

	RP4	NIE requested (RP5)	Utility Regulator proposals
Capex	£356 million	£776 million	£315 million
Capex (renewables)	£18 million	£306 million	Project-by-project
Opex	£284 million	£345 million	£257 million
Pensions	£49 million	£77 million	£22 million

³Utility Regulator, 'Northern Ireland Electricity Transmission and Distribution Price Control 2012-2017, Draft Determination'



Key sections

The Draft Determination paper highlights a number of issues that NEA NI, as the lead fuel poverty charity in Northern Ireland wish to comment on. These issues are as follows:

- Impact on consumers;
- “Consumers do not pay twice”;
- NIE T&D maintain adequate operational capacity;
- Benchmarking with other GB companies;
- Establishment of a Reporter; and
- Other issues included in the Draft Determination paper.

Under each of these headings a more detailed discussion will be outlined, highlighting the views, suggestions and recommendations of NEA NI.

Impact on consumers

This price control will have impact on three sections of customers in Northern Ireland – domestic, small business and EHV customers.

NEA NI’s key focus is on the domestic customer who are in or at risk of fuel poverty. The NIAUR proposals have indicated that the annual charges for the average household in Northern Ireland could reduce by £24. In a time of rising fuel costs (Natural gas, electricity and domestic home heating oil), a potential saving of £24 is significant for householders.

NEA NI is fully supportive of this proposal from NIAUR in regards to this price control if, as stated in the Draft Determination, NIE T&D can maintain operation capacity and a reduction in annual charges.



“Customers do not pay twice”

Under RP4 (previous NIE T&D price control); NIE T&D adopted a rolling operational cost mechanism in order to calculate their allowances. The importance of this change to customers is due to the fact that NIE T&D is a regulated business and therefore this has wider consequences; one of which being that Northern Ireland customers may have paid twice for some services provided by NIE T&D.

In order to investigate this, the NIAUR has commenced a re-examination of the NIE T&D’s accounts. This process will be completed by the end of this consultation period for the Draft Determination; dependent upon the outcome of this investigation the NIAUR will be able to establish if customers in Northern Ireland have paid twice due to the change in the operational cost mechanism. If there is evidence that customers have paid more than they should have due to this reason then the NIAUR has suggested that it may introduce a set of regulatory accounting guidelines.

NEA NI, believe that it is of the utmost importance that this matter is resolved and the solution put in place that is robust enough to ensure that this situation can not arise again. As such we pose a series of questions at this point which include – did customers pay too much in the past and if so how will they be reimbursed? How can we ensure this doesn’t happen again? What happens elsewhere and can we improve regulation and best practice to ensure this cannot occur again?

Customer confidence in the functionality of regulation in Northern Ireland could be damaged by the suggestion that customers may have paid twice for services offered by a regulated company. NEA NI would welcome the



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establishment of a set of accounting guidelines which would ensure greater accountability and transparency.

NIE T&D maintain adequate operational capacity

NIAUR states that it is minded to allow NIE T&D £314.7 million to maintain the network and sustain the networks high performance. However, NIE T&D had submitted a revenue request of £776 million to maintain and sustain the network. NEA NI notes the substantial difference in the amount requested and that which the NIAUR has proposed. We have a concern as to the size of this differential and would pose the question as to how this could occur? However, NEA NI understands that the NIAUR has sought additional information on the condition and safety of the network and are confident that their proposed revenue allocation will not undermine the utilization of the existing network. However, should information be submitted to the NIAUR from NIE T&D that provides evidence that investment in the network is justified then that revenue should be allocated.

NEA NI does note the substantial difference in the revenue request from NIE T&D and the proposal from NIAUR for this price control. We would welcome an explanation as to how these two parties came to such varying figures. This additional information would be useful in terms of the process' transparency.

Benchmarking with other GB companies

Following the completion of a benchmarking exercise with other GB companies, similar to NIE T&D, the NIAUR has identified a 9% efficiency gap within NIE T&D.



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NEA NI is concerned by this discovery. This apparent lack of efficiency needs to be addressed in order to provide reassurance to customers in Northern Ireland; especially in relation to tariff price setting and the implications that this has on customer's domestic electricity bills.

Establishment of a Reporter

NEA NI welcomes the proposal of the NIAUR to employ a Reporter to aid in the price control process. We believe that the establishment of an independent professional or number of professionals to assist the NIAUR in the submissions made by regulated companies to their regulators during the price control exercise is timely but should represent value for money. As the Northern Ireland energy market grows, the process of price controls needs to become as transparent as possible. NEA NI considers the involvement of an independent party to be beneficial to the outcomes of the price control process.

Other issues included in the Draft Determination

Pensions

In relation to the issue of pensions, NEA NI have concerns around the future support allocation for the NIE T&D pension fund – will this be an ongoing issue? Is this support only in response to the economic downturn? Could a situation arise when revenue assistance such as this is required again for pension provision?

Renewables

The issue of renewables is a key consideration in terms of the wider energy landscape in Northern Ireland. The Strategic Energy Framework for Northern



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Ireland outlines clearly the commitment to have 40% of electricity generation from renewable sources by 2020; therefore NEA NI would ask if the Draft Determination provides the necessary foundation for the target above?

Connections

In regards to the removal of the 40% subsidy for new connections, NEA NI would seek an explanation as to the impact this would have on vulnerable customers and would any such impact be monitored and assessed in respect of vulnerable customers?

Conclusion

NEA NI welcome the opportunity to respond to this consultation from the NIAUR on 'Northern Ireland Electricity Transmission and Distribution Price Controls 2012-17: Draft Determination'. We have highlighted a number of issues that are of concern to us as the lead fuel poverty charity in Northern Ireland and wish to see every intervention possible employed in tackling fuel poverty. We look forward to working closely with the NIAUR in the eradication of fuel poverty in Northern Ireland; especially in regard to vulnerable customers.



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