4th October 2010

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To : UTILITY REGULATOR

Herewith we submit our considerations on - **Price Control Strategy Paper (RP5)**

First we would state that we acknowledge the three indicated objectives -

1. To ensure value for money for customers for the service provided;
2. To ensure security of supply by maintaining and developing a network which is fit for purpose; and
3. To facilitate sustainability in the generation and consumption of electricity.

and the implications that these have for the future network structure suitable for integration of renewables.

We note the statement about the Renewable Energy Directive, especially with regard to *"10% of transport energy is to come from renewable sources"* and comment that there is limited information in the document as to how this expectation would be facilitated or commercially incentivised. By the nature of the statement it appears that this engenders a double difficulty in conversion of the target % from a primacy of fossil fuel to alternative sources and then with the further caveat that these should be renewable.

We concur with the observation that there can be some conflict generated in pursuit of the objectives.

"For example, investment in the network to facilitate the connection of increased renewables may fulfil the objective of sustainability but could increase costs for customers. Ultimately, these objectives will have to be balanced over both the short-term and long-term."

In general we see relatively long-term targets such as 2020 and DETI SEF document states "grid development taking place now will lay the foundations for a robust and flexible smarter grid that will be fit for purpose for the next 40 years". Accordingly we would suggest an emphasis on long term view that may compromise some short–term guidelines.

Another topic affected contrarily in this way is the duration of the price control period. Infrastructure by its nature is a long term business; however we would make a point that in the

current energy technology climate there is a global change occurring driven by environmental, commercial, and regulatory movements which now increasingly incorporate issues pertaining to security of supply and energy independence on a national basis. We would contend that these drivers create a volatile situation that would not support sufficient stability over a 5-year horizon. A proposed 3-year duration would seem more appropriate as a review stage that would be beneficial to all parties concerned, including consumers.

We note the emphasis, quite rightly, throughout on the consumer and consumer representation. We see this as a critical area in relation to the proposal to implement Smart meters as per DETI SEF document which indicates potential costs around £280M and these would fall within the proposed RP 5 duration. Allocation is not yet addressed. We note also a general comment about a Smart Grid trial.

Consideration needs to be given to how well informed or aware the consumers and society in Northern Ireland is. National roll-out of Smart Grid / Smart Metering is still a relatively new concept. There needs to be a clearer and better understood link between Smart Grids and the role it has in delivering against the 'Strategic 20:20:20 Objectives' and how these safeguard against European imposed environmental penalties, rising fuel costs and high dependence on imported energy (96%). In parallel there is a need for a more joined–up approach aligned with initiatives and programmes. There is generally no clear indication of any single entity which has overall responsibility for the promotion of energy efficiency, building sustainability into society.
We commend the recognition of the importance but do not think that this can be progressed within the RP5 paper adequately without wider Government and Industry participation and support. It should not be totally the Regulators responsibility to drive the solutions for this problem.
We see the aforementioned Smart Grid trial as an opportunity to use a lighthouse project to develop, co-ordinate and validate what will be needed for future consumer buy-in and grid-wide rollout. The SEF document states:

"*A vision of a smarter grid that encompasses not only smart meters but a myriad of new technologies that empower people to take responsibility for their own use of energy will be a crucial building block in developing an electricity system that is responsive to need and that is integrated across all sectors of our society."*

The emphasis is on more active participation and we would suggest that this has to be devised, tried, improved and stabilised. What is the benefit of empowerment with no established enablement. The Smart Grid trial provides an opportunity to test, develop and prove - with all the stakeholders involved, in a realistic manner, and on adequate scale.

"It is clear that smart grid development holds out the prospect of more active participation by consumers in the electricity sector but there remains considerable scoping work to be undertaken before delivery routes become clearer and options have been properly assessed. This is well-evidenced by technical work-streams to date. In the UK the British regulator Ofgem has been overseeing an important energy demand research project for several years. This has struggled to deliver clear results, and communication channels back to consumers remain poorly defined."
Consumer Focus response to the ERGEG Position Paper on Smart Grids

We recommend also that there should be consideration within of mechanisms for appropriate consumer incentives with flexibility to try different scenarios with a view to define a business model that will help society move from the current delivery and consumption of energy to the desired future sustainable state. Perhaps with an option to evaluate dynamic pricing. The Smart Grid/ Smart Meter trials proposed in the RP5 paper again provide an opportunity to develop, test and validate the options to see which works best and for whom. Experiences from Netherlands and Australia suggest poor preparation and forethought contributed to roll-outs stalling.
"Winning the hearts and minds of consumers will be vital to realising all of the benefits that a smart grid will be able to offer. It is also likely to require changes in market structure, commercial arrangements, and regulation…."
(*Source*: **Position Paper on Smart Grids – An ERGEG Public Consultation Paper, 10 December 2009**)

There are also Smart Meter related critical issues such as data privacy and cyber security and these comprise an integral part of the package requiring a roadmap for basic infrastructure and systems well in advance of any significant implementation.

In relation to timing we would consider that a delay of a scaleable trial until RP5 starts in April 2012 as unrealistic and refer again to SEF: *"the cost of inaction is the greatest risk of all."*

The RP5 proposal on a Low Carbon Network type fund is welcomed. We would be interested to how this would fit in the NI / SEM structure from a competition perspective. What would be the expected % of support which seems to be around 80-90% in GB, criteria for qualification, who owns the outcomes and IP? Could this become a "consortium" solution with DETI support for innovations that have potential for commercial benefit?

We regret the delay in response due to overlapping deadlines on other projects. The comments in this document are mainly about Smart Grids and related matters that are those on which we feel that we can express a view. Accordingly these are a series of comments rather than a detailed answer to the series of questions in the paper and we trust that you find these of some value in the consultation exercise.

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