

Price Control for NIE ("RP5")



Outline of presentation

- Background to NIE
- What is a price control?
- How price controls affect consumer bills
- Utility Regulator Principles
- Price Control review process
- Utility Regulator Proposals
- Impact of RP5 on Consumers
 - Utility Regulator
 - CCNI
- Next Steps

Background to NIE



What is a price control?

- Competition tends to drive down prices eg. supermarkets
- NIE has no competition
 - the Utility Regulator sets a ‘price control’.
- A price control review assesses:
 - How much money needs to be invested in the network (Capex)
- And sets amounts for:
 - Return
 - Depreciation
 - Tax
 - ‘Opex’ eg. Salaries, IT, insurance, rates
 - Pensions

How price controls affect consumer bills

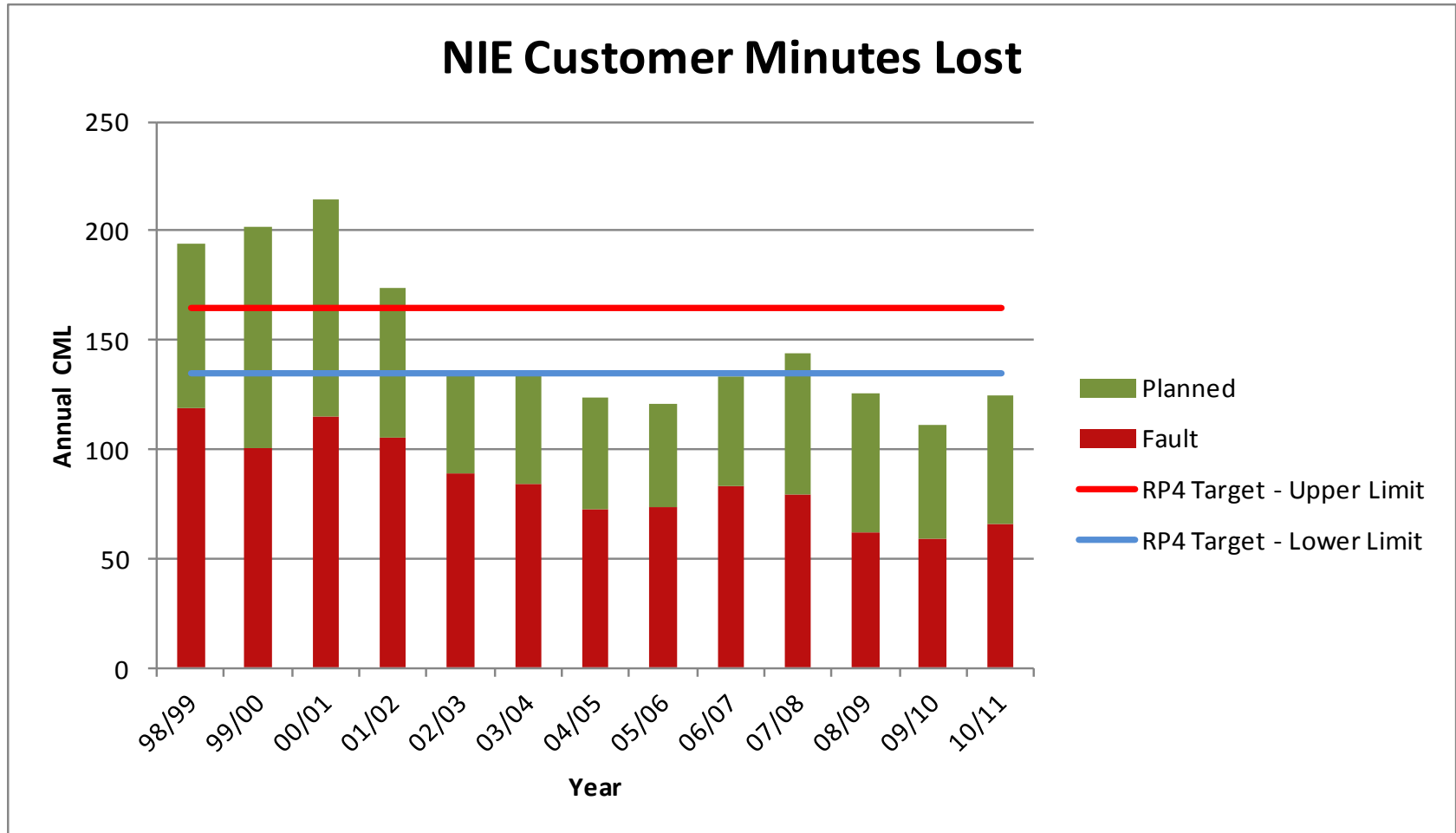
- NIE charges suppliers (eg. PowerNI, Airtricity) for use of the network
- Suppliers reflect this charge in consumer bills
- The Utility Regulator regulates this charge and exists to protect consumers
- The charge for use of the network makes up 24% of our bill

Utility Regulator Principles

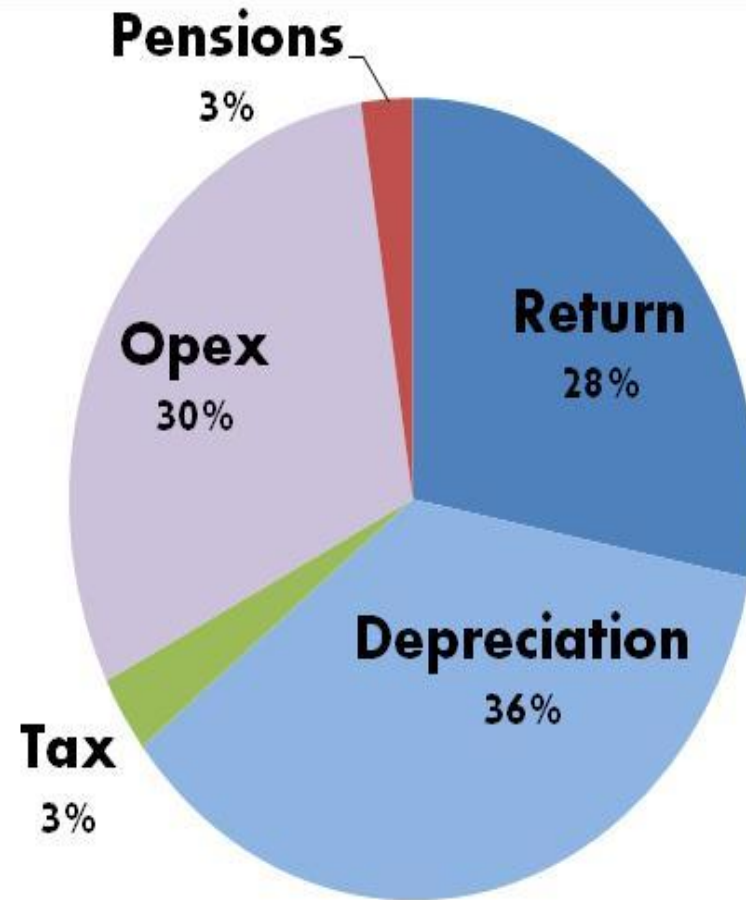
- Customers shouldn't pay twice
- Provide appropriate allowance for NIE to finance its regulated activities
- Ensure renewable investment is provided in a timely manner

Price control review process

- NIE submitted a forecast of money for:
 - Development of network (Capex)
 - Opex
- Covers 1st October 2012 – 30th September 2017
- Utility Regulator analysis
 - 18 months
 - Rigorous assessment



RP5 allowance



Utility Regulator proposals

	RP4 actuals	NIE requested	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

IMPACT OF RP5 ON CONSUMERS

- Utility Regulator
 - CCNI

Impact on bills

- Further high levels of capital investment to ensure continued reliability of network
- Support for renewables
- Inflation excluded

	Current	2016/ 17 Excluding Renewables and Interconnector	2016/17 Renewables and Interconnector
Domestic (4041 kWh/year)	£146	£122	£128
Small Business	£505	£421	£441
EHV Customer (27 GWh/year)	£138,850	£115,259	£139,010

Impact of RP5 on Consumers – CCNI Perspective

Marian Cree
Richard Williams

CCNI – Our Role

- The Consumer Council is an independent consumer organisation, working to bring about change to benefit Northern Ireland (NI) consumers. Our aim is to make the consumer voice heard and make it count.
- We have a statutory remit to *promote and safeguard the interests* of consumers in NI and we have specific functions in relation to energy, water, transport and food. These include considering consumer complaints and enquiries, carrying out research and educating and informing consumers.
- The Northern Ireland consumer pays more for their energy than consumers anywhere else in the UK and NI has the highest level of fuel poverty in the UK.

CCNI's Involvement in Price Controls

- NIAUR obliged to consult with CCNI on all Price Controls relating to Energy (Gas/Electricity)
- This function is an integral part of the Councils Core Business
- CCNI consults with Consumers before responding to the Regulator on a Price Control
- CCNI is the only Stakeholder Group which has been invited to give Oral evidence to the Competitions Commission with regard to the Phoenix Natural Gas Price Control Referral

The Importance of Today

The outcome of the RP5 Price Control will represent 24 per cent of the overall price of Electricity to consumers in Northern Ireland for the five year period

Issues To Consider

- **To what extent are you willing to pay extra for your electricity to get:**
 - Maintaining high reliability- i.e. the lowest possible number of power cuts;
 - More electricity generated by renewable means- i.e. from sustainable sources such as wind power;
 - Neither of the above- I want electricity at the lowest possible price.

CCNI Approach

- Don't question the figures

BUT

- Do question the Principles

Possible approach

- Look back- Did the consumers you represent get a fair deal under previous price controls? If not can and should anything be done about this in RP5?
- Look forward- Will the consumers you represent get a fair deal in this Price Control?
- How do the proposals compare to best practice elsewhere?

Renewables

DETI Strategic Energy Framework:

- ‘Northern Ireland will seek to achieve 40% of its electricity consumption from renewable sources by 2020’
Arlene Foster
- NIE estimates that around £1 billion of grid investment is likely to be required to support a target of 40% renewable electricity.
- Does case by case support strategic planning?
- Do the proposals support the target?

Business as Usual maintenance

- Huge variance between NIE and the Regulator estimate of what is required to keep the lights on:
 - NIE = £776m
 - Regulator = £315m
 - Difference = £461m or 60% LESS

Why?

OPEX moved into CAPEX

An accounting issue?

- But has the consumer paid twice?
- If so by how much?
- Is the consumer due a refund?

Other issues

- Removing the 40% subsidy for new connections- Are vulnerable customers protected?
- Incentives, should we:
 - Help worst served customers;
 - Include Transmission faults;
 - Update GSS amounts for inflation?
 - Environment- Will final proposals be consulted on?
- Pensions:
 - Will the deficit grow?
 - Are the principles sound?

Respond

NIE Price control is :

- 24% of bill; and
- Impacts on the service and reliability for ALL consumers;

Use the 40 page summary paper at www.uregni.gov.uk.

Find you interest area and respond.

Next Steps

- Consultation period ends **5pm on 19 July 2012**
- We welcome comments on our proposals
- Useful reading:
 - Key briefing paper included in pack
 - Summary paper on our website
 - Chapter 20 of Main paper on our website – more detail
- Final decision expected before the end of the year

Annex

