



20TH FEBRUARY, 2014

RESPONSE TO THE CONSULTATION ON THE DRAFT CORPORATE STRATEGY AND FORWARD WORK PROGRAMME OF THE NI UTILITY REGULATOR

We welcome the opportunity to respond to your Draft Corporate Strategy for 2014-17.

Manufacturing NI represents some 500 members, from SMEs to NI's largest employers and exporters, in every NI Assembly constituency. Manufacturers consume the largest part of energy supplied and is usually the 3rd largest input cost after raw materials and labour. This cost represents the largest challenge we face to ensure competitiveness in export markets.

We value the contribution which the Regulator has made in the recent past to save customers money through Price Control and cancelling generation contracts. However, we still have the highest levels of fuel poverty in the UK and our members endure the 2nd most expensive electricity in Europe with the real prospect of having the unenviable accolade of being the most expensive supply in 2014.

Unfortunately, NI is losing businesses, investment and jobs due to energy costs and this is undermining the ambitions set out in the Programme for Government and the Executives economic policies.

Regulation only exists in the absence of choice and competition. Regulators must represent and protect the interests of customers. It is our view that this Draft Corporate Strategy and Forward Work Programme does more to facilitate utilities and will not make the difference for customers where we urgently require it most – delivering cost competitive utilities.

It is of concern that much of the actions proposed concentrate on providing more transparency, more information and not where it really matters - on the cost. *In our view, vulnerable domestic and business consumers are best served by prioritising limited resources where the biggest impact can be made for customers – **electricity generation margins, a SEM which has a demonstrable impact on bills and more efficient transmission and distribution across all the utilities.***

The first rule of energy policy is, as with business, "can the customer afford it?" As evidenced by increasing investment in energy independence (by those with the resources), both business and domestic customer can no longer afford what is supplied. This must be the Regulators urgent priority.

To deliver much needed positive change for customers, we believe the following are priorities:

1. **Policy** – the debate is continually defined by security of supply and grid improvement interventions – both areas where the energy companies are financially incentivised at the expense of customers. We would hope that the Utility Regulator would send a strong statement, on behalf of customers, that the current position on prices will not be allowed to continue. We expect prices to come down or as a minimum quickly level off within the SEM and with GB and to move towards a European average throughout this Corporate Strategy period.

At this point, we see no ambition, target or suggested actions in the Draft Strategy which will have a positive, material difference to customer bills or competitively reposition costs (and the region) on an EU level at this critical time for our economic recovery.

Priority should be given to actions in a programme of work which most directly impacts on customer bills in the immediate and short term and achieve comparative competitiveness.

2. **Network Charges** – We understand that the Competition Commission’s final Determination on NIE (due at the end of March) will add further cost and will only conclude on the absolute level of revenue which they are entitled to collect from customers. It will not, however, consider the distribution of charges between different network user groups. The evidence clearly points to lower than average network charges in NI v RoI in some consumer groups, yet significantly higher network charges for I+C consumers in NI v RoI.

The Regulators Office has committed in evidence to the ETI Committee to address this and implement any changes considered necessary by October 2014. This does not appear in either your Strategy or Forward Work Programme.

We would like to see how the Regulators office proposes following through on this commitment and other interventions which, as a minimum, smooth out the differential in price with the Republic of Ireland with which we share the SEM.

3. **Generator Profits** – the SEM Committee report on generator margins clearly identified that profits are significantly higher here compared to GB. There is no fundamental reason why this should be the case. Indeed the Competition Commission, in its Provisional Determination, found no justification for a higher risk premium (and therefore profit) for investment in NI versus GB.

The Utility Regulator has all the evidence required to take action, but there is no proposed work in the plan to do this. This needs immediately addressed in your Forward Work Programme for this year and not simply left to the longer term redesign process which is some time off.

This will make the most significant difference for both domestic and business customers and contribute much to the NI Executives plans for the economy and indeed addressing fuel poverty.

4. **Grid Improvements and Connections** – the case for greater interconnection is well made. We just need to get on with this and indeed we would ask that the Utility Regulator would encourage the NI Executive to seek out alternative methods of support for this infrastructure investment rather than placing the burden solely on customers.

We understand that in regard to the network modelling used for connection offers, NIE is not applying the most up to date planning standards. This ultra-conservative approach results in significantly higher cost estimates and is unnecessarily restricting access to the grid for business expansion and the development of renewables and other generation.

NIE should be encouraged to adopt planning standards which are contemporary and relevant and there needs to be greater transparency on the standards and methodologies applied in their decisions making process.

The EU’s flagship Horizon 2020 programme provides very significant opportunities to invest in innovation. Indeed, given the position we hold on the border with another EU State including the shared ownership of the SEM, accessing these funds should be significantly easier for those in energy businesses North and South. The Utility Regulator must ensure that regulated companies de-risk already over-burdened customers from the cost of innovation by accessing these EU funds.

5. **Contestability for Connections** – There must be an immediate introduction of competition in this area which will slash the cost and allow businesses to secure their own supply, fix costs, reduce demand on the grid and contribute the potential gap in the security of supply.

Additionally, there is little clarity on how NIE procures works with internal companies. Regulator intervention is required to ensure that customers are getting best value for the work which is procured from these internal, currently unregulated elements of its business.

6. **Review of Retail Markets** – Retail margins impact very little upon customer bills. We do not see the value of using your resources to launch a review into their effectiveness. This will make no significant difference for customers. Focus should be on the areas where the Regulator can have the most impact – the cost of generation, the SEM and price control in transmission and distribution.
7. **Water** –Recent work by the Consumer Council has provided further evidence that NI Water are over-charging customers. Your work in this areas should concentrate on auditing billing and fixing processes to ensure that customers are not being wrongly charged.
8. **Engagement** – the recent decision to amend the payback period for the Firmus Gas investment from 2035 to “significantly impacting” on this by 2017 raises issues around communication and understanding the impact of decisions on business planning by customers. This decision, by Firmus or the Utility Regulator (we’re still unsure at this point) has had a serious detrimental impact and has left no time to amend business, financial and investment plans.

Such a significant decision, reducing the repayment period by 18 years and adding 7% on to bills, required greater levels of customer consultation and not an immediate introduction. For us it has signalled the need for greater levels of engagement between the Regulator and customers.

In the absence of a formal customer representation on your Board, we would encourage investing in formal engagement structures to work alongside the informal engagement which your office does to listen and, when needed, explain to customers. This includes encouraging your Board and staff to spend some time with customers, in their premises, to get a deeper understanding of the issues and opportunities. We would be happy to help facilitate this.

The Board and staff of the Utility Regulator, in recent years, has demonstrated a determination to ensure value for money and transparency but we don’t believe that this Draft Corporate Strategy, in its current form, will deliver significant outcomes for customers during the 2014-17 period. With a budget in excess of £7m per annum, the Forward Work Programme must be seen to ‘make a difference’ for customers where it matters and contribute to the NI Executive’s economic ambitions. Any work streams must focus on where the Regulator can maximise a return for this investment rather than issues on the edges.

For too long now customers have been asked to endure “short term pain, for long term gain”... the time has come for any gain to be clearly evident. The fortunes of Northern Ireland’s manufacturers, the challenges faced by fuel poor domestic consumers and the ambitions in the Programme for Government depend on the Utility Regulator taking immediate, significant and effective action on behalf of customers.

We hope that this provides you with some assistance in reviewing and finalising your Draft Corporate Strategy and Forward Work Programme.

www.manufacturingni.org

Correspondence: Stephen Kelly, 9 Cloncool Park, Culmore, Derry BT48 8NS • **M:** 0776 848 0737 • **E:** stephenkelly@manufacturingni.org
Administration/Accounts: Wendy Walsh, c/o W.D. Irwin & Son, 5 Diviny Drive, Carne, Portadown BT63 5WE • **T:** (028) 3839 5463

Manufacturing Northern Ireland is a not-for-profit Trade Association incorporated as a company limited by guarantee in Northern Ireland; Reg. No: NI 073892 Reg. Address: 5, Diviny Drive, Portadown, BT63 5WE