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Dear Elena

Draft Corporate Strategy 2014-19 and draft Forward Work Programme 2014-15

Power NI welcomes the opportunity to respond to the recent draft Corporate Strategy 2014-2019 and draft Forward Work Programme 2014 - 2015 published by the Utility Regulator (UR).

Jointly publishing the Corporate Strategy and the Forward Work Plan (FWP) provides a degree of transparency in how the UR intends to translate strategic objectives into high level work activities.

The Corporate Strategy objectives are consistent with the statutory objectives of the UR and set a laudable high level framework for the market and regulation i.e. one of efficient, effective monopolies and markets which protect the long term interests of consumers.

The Forward Work Plan (FWP) is also set at a high level and covers broad ranges of both projects and on-going regulatory activities. Power NI believes however, that there are a number of key activities which have remained outstanding for a number of years which require resolution.

The Retail Electricity Market

Power NI notes that 2 flagship projects have been identified in relation to the retail electricity market in Northern Ireland – ‘Assessing the effectiveness of competition in retail electricity markets’ and ‘Establishing a Retail Energy Market Monitoring (REMM) Framework’ and agrees that these are priority areas.

Linked and perhaps implied by both flagship projects, is a requirement for a fundamental review of the wider regulatory framework which applies to Northern Ireland’s retail electricity sector and its impact on Northern Ireland consumers and stakeholders.

A review of this nature has been advocated by Power NI in responses to the 2011/12, 2012/13 and 2013/14 UR Forward Work Plans; the September 2011 Mid Term Review, The Retail Market Consultation and throughout the 2010/11, 2011/13 and 2014/17 Price Control Reviews. As the retail market in Northern Ireland continues to evolve and as competition is now well established this review is long overdue and should be an UR priority.

Should the scope of these flagship projects, in aggregate, not be sufficient to complete a fundamental review of the regulatory retail framework in Northern Ireland, the UR continues to allow the market to evolve in an unregulated manner.

At present there is no framework in place for how the UR can assess the current regulatory arrangements, react to further change in the Northern Ireland market, or any principles surrounding what form an enduring regulatory framework should take. Consistent with its duties, better regulation principles and regulatory precedent, the UR must consider these issues.

This policy vacuum provides no assurance to stakeholders or investors as to the future market design and ultimately the UR will not be fulfilling its duties if it does not consider these risks and issues. It is not in the interest of Northern Ireland consumers if the regulatory framework does not evolve to reflect the state of the market.

Regulation which does not reflect the market characteristics or evolve with the market can inhibit the development of and distort competition. Power NI believes that if a market is demonstrably competitive, the prolonged application of a price control will compromise the proper operation of a competitive market and is in effect counterproductive. The UR should be cognisant of potential unintended consequences of continuing and relying upon, frameworks put in place under entirely different market scenarios.

A number of options exist for how the regulatory framework could be developed. As part of the review of the state of competition in Northern Ireland and the development of tools for retail monitoring, the UR needs to consider the design of its regulatory framework and how it can operate in a competitive market.

This may or may not involve price controls, Power NI urges the UR to consider options which move away from a regulatory approach which focuses solely only on Power NI and instead are based on a framework that regulates the market as a whole. This may involve both supply and demand side measures as enhanced consumer protection tools. Such measures could also review the requirements implemented under the IME3 requirements and be supplemented by measures such as the Marketing Code of Practice.

Additional Items

Wholesale Market Liquidity

Securing effective hedges is fundamental to ensuring competition and delivering products that end consumers want. While little consideration was given to the contract market during the SEM design it has a significant effect on end consumers. The lack of liquidity is of real concern and Power NI would urge the UR to carefully consider any decision in relation to market structure, participant structure or mitigation measures which reduce liquidity. Consequential increased exposure to fluctuating pool price, contract scarcity and a lack of a reasonable contract market will all ultimately manifest in greater costs borne by end consumers and may make certain entities participation in the market untenable.

Power NI believe that the current market already suffers from such a degree of scarcity that contract price premiums have been seen in the NDC market. Reserve prices in many cases are

far in excess of DC equivalents leaving suppliers and ultimately customers exposed to these high prices. The lack of visibility and clarity of auction timetables and volumes to be sold also contributes to a price premium. Power NI would urge the UR to mandate greater transparency of the contract auction plans and assist the market in moving away from a reactive hedging approach.

While the UR is considering the issue of liquidity and risk mitigation in the context of the European Target Model requirements (I-SEM Project) Power NI would welcome interim measures to address liquidity prior to the new market arrangements in 2017.

Smart Metering

Power NI is conscious that the policy decision in relation to Smart Metering lies with DETI. As the UR is aware however, other European countries are at a more advanced stage of their implementation programmes. Power NI would encourage both DETI and the UR to reflect on the practical experiences from other markets both in refreshing the Cost Benefit Analysis and in the implementation planning phase.

Smart Metering will require a significant investment in infrastructure and on going maintenance. This cost will ultimately be funded by consumers and therefore it may be prudent to continually review plans and decisions in light of new information available.

Recent information from both the Irish and German markets suggests that as more details regarding implementation have become available, especially on the supplier side, the associated costs are significantly higher than original projections. Such information may undermine the Cost Benefit Analysis completed in Northern Ireland, which incorporated a light touch supplier cost element, and therefore a refresh may be a prudent first implementation step.

Power NI believes that there is a case for a targeted as opposed to a universal implementation of Smart Metering. For example, high consumption customers, those with electric heating such as heat pumps, difficult/expensive to read premises and customers with micro generation.

The Northern Ireland market also has a significantly higher installation of prepayment meters in comparison to other markets and it is of critical importance that the consumer benefit derived from this solution is not negatively impacted by Smart metering.

Power NI is committed to working constructively with the UR across the range of projects references in the Forward Work Plan 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



William Steele
Power NI