Response to the NI Utility Regulator's Paper:
NI Electricity Prices: Data and Comparisons - Information Paper2

Manufacturing NI represents the interest of almost 500 manufacturers in Northern Ireland including some of the largest energy users. Competitive energy costs are vital to the survival of the manufacturing sector in Northern Ireland. For some time now we have been highlighting the fact that our members are struggling to compete against a background where they are paying a premium of around 20% on electricity costs over their competitors in both GB and the Republic of Ireland. Energy is typically the third largest cost faced by manufacturers after labour and raw materials and is a vital component of every manufactured product.

MNI welcomes the increased transparency which this latest research brings to the industrial and commercial electricity market. It confirms figures which MNI have already provided to both the Regulator and the Department of Enterprise Trade & Investment and provides a firm base line on which future energy policies can be founded as well as a springboard for further research into the principle drivers of the high costs demonstrated and we hope, the development of policies to address the issue.

We believe that it is vital that further work is carried out as soon as possible to disaggregate the figures contained in this report. Only then can we seek to address the main drivers of such costs.

There are three areas identified for further work in the report:-

- Market size/scale, isolation and consumer dispersion
- Wholesale energy costs and fuel mix
- Energy Policy, Taxation and Regulation

Market size/scale, isolation and consumer dispersion are not variable, but relatively fixed elements of the market. While it may be relevant to quantify what impact these various elements have on costs, the reality of the situation dictates that these fixed elements are something which cannot be influenced. Accordingly we believe that this part of the future work should be given a low priority.

We do not concur with the suggestion in the report that the lack of either competition or regulation in the I&C market have a major impact on cost. Once again it will be useful to quantify the impact of this element on cost, however any issues on competition can only be addressed through new entrants into the marketplace, and an increased awareness by users of the benefits of switching supplier. Again this is not something which can be addressed by policy makers, and should be given an equally low priority.

The key cost drivers which can be addressed in the short term are those listed under Energy Policy, Taxation and Regulation. This element of the research should we believe examine not only UK and NI Government policy, but policies in place in competing jurisdictions such as the Republic of Ireland. It is our understanding that the reason why NI domestic network charges & levies are c£13/MWh lower than RoI, against a situation on I&C network charges & levies which are c£16.50 /MWh higher than RoI, is wholly as a result of government policy in RoI skewing the distribution of network charges towards domestic consumers to the benefit of large users.

Government has pretended for nearly twenty years that electricity costs are a result of the interplay of regulation and competition in the energy markets. In reality Government decisions affect the price of electricity directly, as the Executive recognised when it successfully and to its credit campaigned against the carbon floor price applying in the SEM. To give effect to the drive to rebalance the NI economy the corporate sector should be part of a formal and continuous conversation of policy makers on energy policy.

It is our belief that regulated elements of costs are the main drivers and in this context we note the following:-

- Transmission charges have increased by 41% on average between 2011-12. This is much higher than the UK and ROI whose average annual increases are under 20%.

- Use of System charges account for approximately 11% of overall electricity spend in NI and have a significant impact on end-user price. Users need to be reassured that the structure and application of such charges comply with best practice in the EU.

- Single electricity market (SEM) charges account for up to 15% (approx.) of overall spend.

- The charge for the Renewables Obligation scheme has risen significantly since its introduction in 2005. Since 2011 it has risen over 91% from 0.213 p/kWh to 0.408 p/kWh and above inflation increases are set to continue.

- Imperfections charges have risen 51% since 2010. Users need to be reassured that imperfections and constraint charges are being levied on a basis which is cost effective for different user groups. The load profiles of most LEU's are such that we believe the major elements of these costs are derived from domestic users.

- The present application of costs for the Public Service Obligation means that I&C customers are subsidising domestic users though payment of costs toward retail market IT systems and the NI Sustainable Energy Programme. These elements of the charge benefit only to domestic users. This element of charges needs to be reviewed as a matter of urgency to reflect different cost recovery from different user groups. Sculpting of both the above charges across different categories of customer usage should be explored.

We believe that the main focus of further research should be on these areas of costs. MNI welcomes the opportunity to work with the Regulator on the further development of this research.

There are a number of areas where we believe that the research could be refined to present a more accurate picture.

- We note that in relation to comparisons with the Republic of Ireland that there are 26 large users there who are directly connected to the transmission network and thus do not pay any distribution charges. The electricity consumption of these companies (Intel, Irish Cement etc) amounts to more than the total I&C market in Northern Ireland. This has the potential for major distortion of figures.

- Accordingly, it would be helpful to know more about the characteristics of large users here and in other member states. Northern Ireland lacks very large users such as smelters and aluminium producers. It is also not clear from the way the figures are produced if the 22 large users or the 352 next tier down of largish users in Northern Ireland have a different operating pattern to those elsewhere – e.g. do they operate three shifts per day or two; do they operate through the peak? Unless we compare similar kinds of manufacturers with similar operating patterns we cannot properly isolate the factors which make Northern Ireland different. With the relatively small number of large users in NI it should be possible to clarify this point.

- Comparisons of the industrial price as a percentage of the domestic price are liable to muddy the waters. By definition it will make the industrial price performance of countries with high domestic prices look relatively good. Perhaps it would be more useful to look at industrial and domestic prices as a percentage of the weighted average of all the units sold in that system.

- It is also necessary to correct industrial prices for non-grid delivered electricity. If it is practice in other states for large users to use their own generation to supplement grid generation or to replace it at certain times of the day this too should be factored in to the analysis. (historically other countries have been more successful in exploiting CHP for example.)

- It would also be useful to know how much electricity is used per £m of GDP. If Northern Ireland uses below average amounts of electricity per unit of GDP/high value added per MW/h this might well have lessons for industrial policy

- At present we do not know what the effect would be if all of Northern Ireland's very large users were to disappear from the system either because they close down or produce their own power. Modelling would provide the evidence on which to make policy. If it showed that the removal of large users would increase costs for everyone else this provides evidence of the extent to which it would be in the interests of all electricity users to find a pricing solution which works for large users. Modelling would also establish if part of the solution were to provide a much greater quantity of on-site generation for peak demand periods. If modelling showed that getting some or all large users off grid would be helpful then this too could be fed into the mix.

- If further detailed analysis shows that on a fully "like for like" basis large users in NI are paying more than comparable consumers elsewhere then it should be possible to identify exactly where the composition of the large users' price differs from the price elsewhere. If gas prices, transmission and distribution costs etc. do not disadvantage domestic and small users in comparison with their peer groups elsewhere it should be possible to identify what factors cause the disparity for large users.

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