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## **SSE response to the Utility Regulator's Draft Forward Work Programme 2013-14**

**18<sup>th</sup> January 2012**

Dear Elena,

Thank you for giving SSE the opportunity to comment on the Utility Regulator's Draft Forward Work Programme for 2013-14.

SSE is a utility with both generation and supply interests in Northern Ireland. Our supply business, Airtricity, supplies 280,000 gas and electricity customers in Northern Ireland. We also own and operate over 500MW of wind generation capacity in the Single Electricity Market, and plan to make further investments in sustainable generation over the next 5 years.

Our response provides some general comments on the structure of the Draft Forward Work Programme and briefly covers some of the FWP projects that are relevant to our business. I hope you find our input helpful to your review, and look forward to seeing the final Forward Work Programme in March.

Yours sincerely

(Sent electronically)  
Connor Powell

## **Comments on the Draft Forward Work Programme**

### **Defining Priority**

The Forward Work Programme (FWP) defines two different priorities for projects listed within the FWP:

- **Priority 1:** These are driven by legal and accountability requirements and we will focus our resources on delivering these workstreams.
- **Priority 2:** Those projects that, while significant, can be delayed or deferred if other priorities arise during the year.

These definitions are a welcome addition, and it is clear that the majority of those listed as **Priority 1** are essential as opposed to useful. However, we would note that some projects have repeatedly been included in the Forward Work Programme but have not been progressed, such as reviewing the value of introducing contestability for connections. While these projects may not be driven by deadlines imposed externally, they are important components of the Utility Regulator's overall mission and vision set out in the Corporate Strategy.

We have made some general comments on a number of the projects identified, highlighted **Priority 2** projects that we feel are particularly valuable, and asked for clarity or further definition of projects that we do not understand.

### Retail Market Transparency and Engagement (Projects 5, 7 and 8)

A review of Ofgem's retail market transparency proposals and the publication of a Northern Ireland specific set of proposals are included as a **Priority 2** project. We assume that this refers to Ofgem's Retail Market Review (RMR).

SSE was the first major supplier in GB to make substantial changes to improve simplicity, transparency and service following the publication of the Retail Market Review in November 2010. Ultimately, the review was driven by a need to restore customer trust and confidence in mature, competitive energy markets, through a number of proposals aimed at simplifying choices available to end consumers.

These same conditions do not exist in Northern Ireland, and substantial interventions through the transposition of IME3 mean that suppliers are already investing in significant changes to their customer facing systems. We would suggest that while a review of RMR would be informative, the review must (by definition) take place once the final measures have actually been introduced in the GB energy market. This will not have happened by Q3, 2013.

Proposals from the RMR package may be helpful individually, but a radical overhaul of the retail market, following a substantive overhaul of the retail market (which is still being implemented) will needlessly increase costs for energy suppliers and end consumers. SSE would suggest that **Project 7** and **Project 8** (both **Priority 2**) are actually pre-requisites for further intervention.

### Harmonising energy markets (Project 13)

The enduring arrangements for regional integration of the electricity market will be critical to the development of a coherent wholesale market that facilitates efficient cross-border trades in electricity. In SSE's response to the most recent SEM Committee Proposed Decision on Next Steps to Implementation of the European Target Model (SEM-12-105) we (and many other market participants) raised concerns about the process to date including:

- A 7 month period between close of the initial consultation and publication of a proposed decision.
- A lack of meaningful engagement with market participants.

- A lack of electricity economics and project management resources available to the project team.

We hope that these concerns (particularly around Governance and Project Management) are acknowledged by the Utility Regulator, and that as part of the project to “*influence and develop [...], interim and enduring arrangements for regional integration*” that these concerns will translate into proper structures for engaging the industry who will ultimately have to operate and trade in a redesigned market.

### Generation Unit Agreements and Security of Supply (Project 15 and 23)

The project to review the Generation Unit Agreements should be considered alongside the project looking at generation security of supply post 2016. Both should be considered **Priority 1** considering lead-in times for new generation capacity. SSE believes that:

- The additional liquidity that the generators covered under these agreements would provide to the market as independent traders would offer greater value to customers than the existing GUAs.
- The transfer of risk from generators to customers and distortion of incentives implicit in the GUAs is a barrier to other generators considering future investment in Northern Ireland.

While the GUAs may provide benefit for customers for time to time and were relevant to circumstances in a pre-SEM environment, restoring the economic signals that inform market participants is key to meeting the needs of customers in the long term.

### Contestability for Connections (Project 16)

A review of the value of introducing contestability for connections to the electricity network is included as a **Priority 2** project in the Electricity Directorate. SSE believes that contestability should be introduced for both distribution and transmission connected generators in Northern Ireland and that a consultation on this policy should take place during the period covered by the Utility Regulator’s Forward Work Programme.

We would note that contestability of connections has appeared on the FWP in various different forms over the last 3 years, but has not been effectively moved forward, despite having real potential to reduce consumer costs.

As we have repeatedly stated, competitive pricing will be most effectively achieved through the introduction of competition into new areas where possible. Contestability of connections provides a natural check on both costs and project timelines and we are convinced that the introduction of a formal process should be considered as **Priority 1** by the Utility Regulator and NIE.

SSE has experience of an informal process of contestability on the connection at our Slieve Kirk wind farm. This means that the SSER team constructed the NIE element of Slieve Kirk substation, overhead line, cabling and ancillary equipment before handing it back, delivering significant project savings and more control over timelines. We hope that this option should be open for all connections going forward.

### Offshore Connection Arrangements (Project 17)

We are pleased to see that offshore connection policy and generation licensing is included in the FWP, but would suggest that it should be considered a **Priority 2** project by the Utility Regulator. The offshore licensing regime developed by Ofgem in GB took some time to develop, but the offshore projects granted licenses last year have substantial lead times.

SSE has been critical of the regime in GB, but it seems likely that some of these criticisms would not apply to the limited number of offshore projects likely to progress in Northern Ireland. Adopting a regime similar to Ofgem's that allows for site specific competitive tender (OFTO build), or connection assets built by the developers and transferred to OFTOs (generator build) might be most appropriate for the smaller number of offshore projects likely to be delivered here.

### Additional Renewable Generation (Project 20)

SSE welcomes any project that seeks to allow additional renewable generation connection. However, it is unclear what new market services and arrangements might be introduced to facilitate additional connection.

SSE would see the key barriers to further deployment of renewable energy in Northern Ireland as primarily relating to grid availability and lengthy delays on developing and constructing the North South Interconnector. We would like to see more clarity on this project in the final Forward Work Programme.

### Moyle Interconnector arrangements (Project 24)

We would like more detail on what this project entails in the final Forward Work Programme. While we understand that four similar cable faults have been experienced on the Moyle cables since September 2010, any alternative approach to repairs will require the involvement of key stakeholders and customers.

### Work with ACER to finalise and implement EU network codes at Interconnector Points (Project 29)

Similar to **Project 13**, on regional integration of the electricity market, we would stress that the Utility Regulator should take a leading role in providing information to industry, and consulting industry on implementation. We would suggest that a commitment to inform on progress should be included within the project description in the final FWP.