UR Consultation on Draft Determination for NIE Networks RP6 Price Control

SSE Response

May 2017

Introduction

SSE welcomes the opportunity to respond to the URs Draft Determination (DD) on RP6 for NIE Networks (NIEN) Transmission and Distribution businesses. SSE has both generator and supply interests in Northern Ireland (NI) and is directly impacted by NIENs activities.

The DD is an extensive document setting out the URs position on allowances for NIEN out to 2023. Our review has not focussed on the control methodology; we have instead focussed on the key areas of NIEN business that impact SSE in its activities in NI. We recognise the need for an appropriate balance between investment and cost efficiency in the DD but have concerns about whether this has been met, especially given that the RP6 period will last 6.5years. Our response focuses on two principal areas – revenue protection and network investment.

For context, the Northern Ireland Affairs Committee recently published its third report of session 2016 – 17 on the Electricity sector in Northern Ireland. This report examined the industry as a whole and made recommendations in areas that were deemed to need additional investment or policy clarification. While the report examined a number of areas, the underlying message was that a clear and consistent policy framework is required in NI to ensure appropriate investment in the electricity sector to underpin the economic growth of the NI economy.

While this may not be directly within the remit of the regulator, the UR does have the ability to ensure the NIEN as the monopoly network owner and operator is provided sufficient allowances and flexibility to plan, maintain and expand the electricity network to support the future needs of NI consumers.

Revenue Protection

In the DD, NIEN activities to prevent, detect and investigate energy theft are dealt with under revenue protection. There is an existing revenue protection incentive in place; the current approach is that NIEN is allowed to keep 50% of the revenues recovered from premises that are not supplied with electricity from a registered supplier.

In its RP6 submission, NIEN proposed that the scope of the incentive be extended to include all unbilled units resulting from illegal abstraction rather than just those from premises that are not registered with a supplier. SSE welcomes the recognition of NIEN of its role and responsibility with respect to this issue.

Given the ongoing challenge with revenue protection issues in NI, SSE is concerned that the UR has not supported this proposal. We can see no reason why the UR would not support an incentive to recover all unbilled units given there is no incentive to do so at the moment. The reason given by the UR is that it wouldn't incentivise NIEN to actively deter theft, rather that it would only be incentivised to identify and stop theft once it has already occurred, appears to indicate that the UR believe NIEN would actively cease undertaking its licence and legislative responsibility to deter theft from occurring. The explanation in the DD is that NIEN would earn more money under its proposed scheme if 5% of customers were involved in theft and it identified and stopped half of this compared to it taking pro-active measures to limit theft in the first place to only 2% of customers. SSE can see no basis for this position and would appreciate further understanding of this from the UR.

In addition, the regulator stated that ideally an incentive linked to losses would be introduced to incentivise NIE Networks to stop theft in the first place. This was discussed with NIEN and that both parties decided such a scheme would be too complex to design. We would welcome a mechanism within RP6 for NIEN to report the estimated losses on the system and propose steps to address the issue.

The UR also notes that there are two existing work-streams to address the theft of electricity: the meter replacement programme for theft and the Energy Theft Codes of Practice. SSE is engaged in these initiatives but is of the view additional measures are needed to address revenue protection in a timely manner. In relation to the meter replacement programme over the RP5 and RP6 periods (10+ years) the total number of revenue protection related meter replacements is 20,000. 13,000 will have been replaced in RP5 which means only 7,000 left to be completed in RP6. The basis for the URs position that replacing only 7,000 meters over the next 6 years is not clear.

We would welcome clarification from the UR as to how 20,000 meters has been identified as the optimal level for replacement.

Overall the URs response to NIENs proposal for revenue protection is concerning to us. Our reading of the DD is that the UR and NIEN are aware of an issue and the latter proposed an incentive to further address this issue. Rather than engaging in refining the NIEN proposal the UR has rejected it and note that the solution would be to measure losses on the system. No proposal has been made in this regard; the URs approach is to continue BAU. SSE would appreciate an understanding from the UR of where it believes the ever increasing costs associated with revenue protection will lie in terms of responsibility. At this time the UR appears to believe that suppliers should carry the costs of this network issue. This is inappropriate and not in line with existing legislation.

While the URs theft targeted programmes are welcome, they have acknowledged that the most effective way to minimise theft is to measure losses. If this is the case, this is something which requires further consideration in the final determination.

Network Investment

The timeframe for RP6 captures the period within which 2020 renewable energy targets are to be met. The UR is also currently consulting on connection policy and has flagged its intention to finalise the policy in line with the RP6 Final Determination being issued. There is no monetary commitment to invest in adding additional network capacity within the DD we would again urge the UR not to make a decision on connection policy simply to align with the RP6 consultation timeline.

The URs final determination on electricity network investment will lay the foundation for future development in NI and provides an economic signal to developers and business owners alike. Where there is uncertainty, those looking to invest will be less likely to do so.

It is important that both generators and businesses can obtain connections. There is an ongoing issue where congestion in both the transmission and distribution networks has led to situations where private investment has been required to upgrade the local network in order for businesses to obtain new or improved connections. This issue is common in areas where reinforcement has not been carried out by NIEN e.g. in the West.

Over the past 5 years significant development of data centres in Ireland have been announced in locations where the grid infrastructure has been reinforced and where capacity is available – either existing or following an uprate. The choice by multinationals to locate in Ireland is directly linked to the climate and the electricity infrastructure. While NI and Ireland share a similar climate, the level of investment is very different. This is having a direct impact on economic growth in NI.

At the most recent RP6 workshop the connection process was discussed in the context of the introduction of contestability for all connections being the solution to connection issues in NI. As stated by SSE at the meeting, this is not the case.
While the expansion of competition in this regard is welcome, the UR does not seem to fully understand the issue being highlighted, particularly from a developer prospective.

The key issue in NI is the lack of network capacity available at both distribution and transmission level. Developers have limited access to the network as capacity is scarce due to minimal strategic reinforcement or targeted investment in the grid. In order to address this there needs to be continued investment in electricity infrastructure. This will in turn support economic growth in Northern Ireland.

We believe the UR should provide NIEN with a capped allowance to invest in additional capacity on both the distribution and transmission level to allow those wishing to connection to the NI system do so in a timely manner. This is the approach in other jurisdictions and works well. We do recognise the need for regulatory oversight for high cost investment (e.g. the North South Interconnector - NSIC) and believe a case by case for investments of this nature is appropriate. That said given the strategic importance of the NSIC to NI a commitment by the UR to make the necessary funds available to deliver the project would be welcome.

The UR has decided to carry forward a case by case expenditure approach. This means that NIEN has to justify its decision to invest on a case by case basis to the UR. This approach also applies to cluster development. This provides no certainty for developers, business owners or the network operators. In order to foster future investment in NI and to encourage the development of new business there needs to be targeted investment in the grid infrastructure. Providing an allowance to NIEN on a case by case basis is inefficient and will likely deter their investment activity.

Based on experience in other jurisdictions it is clear that carrying out a programme of work is often more resource efficient than doing something on a piecemeal basis. This is particularly the case with infrastructure investment.

The UR has proposed providing an allowance for trials for trialling and integration of technologies which could offer an economic solution if network load is increased by the uptake of low carbon technology. This is a welcome development and should provide NIEN with an opportunity to identify innovative solutions to deal with the issues on constrained networks.

The UR has also proposed a reduction in transmission investment of £9m per annum against RP5. We cannot understand the basis for this reduction given the lack of investment in transmission planning, network growth and firm network capacity. The allowance provided in the DD is not sufficient to support continued economic growth, while ensuring protection of future consumers in our view.

Future projects are to be addressed through the D5 mechanism. However it is unclear what these projects are, level of investment commitment or when the investment might be forthcoming. Again, some clarity and background into the URs reasoning in this area would be welcome.

This issue was highlighted by the NI Affairs Committee in its recent report which stated that there is a clear need for infrastructure investment above and beyond that approved by the Regulator. The report specifically notes that additional investment could support the economic development as well as the connection of additional renewable energy in NI[1].

The report also noted deficiencies in the NI electricity network and that the lack of capacity could be an inhibitor of economic growth in Northern Ireland. While a government decision may be needed for strategic regional investment directly funded from the exchequer, the current state of NIs infrastructure is the result of sustained underinvestment which has led to a situation where security of supply is a real concern.

If the UR take a holistic view of the sector at present, making the investment required to upgrade the network would seem logical as wholesale costs for electricity are falling at present. A modest increase on all customer bills in order to reinforce, modernise and future proof the NI electricity network should outweigh the short term benefit of maintaining the current level of electricity network charges. While we welcome competition in the delivery of connections to the grid system, investment is needed to provide the capacity needed for businesses and developers to invest further in Northern Ireland.

Normal network activity entails ongoing refurbishment and replacement of network assets. These assets are central to availability and normal running of the network and failure will impact significantly on curtailment and constraints for existing generation. We are therefore concerned with the proposed reduction in refurbishment and replacement of general transmission assets in RP6.

From a customer impact prospect, wind energy reduces the electricity cost in the same. This is important for customers and encourage increased wind energy in the all island energy mix will ensure long term protection of customers. For generators to make the decision to invest in NI there must be a clear path to enable continued connection of the cheapest electricity source.

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[1] https://www.publications.parliament.uk/pa/cm201617/cmselect/cmniaf/51/5102.htm

We welcome NIENs proposals for investment and integration for LCT. It is disappointing to see the level of the allowance proposed in light of the industry transition towards a low carbon economy and decarbonisation. Also given the customer trend towards self production of electricity, we believe the UR should make provision in the final determination for a change in charging structures.

In the case of electrification of transport, rollout of EV charging infrastructure must be the precursor for consumers to choose an EV. We believe that the investment in LCT and the growth in EVs are directly linked and lack of investment at this stage will negatively impact the potential growth with a knock on impact to the NI economy in terms of jobs, technology adaptation opportunities, and GHG reductions.

Conclusion

The RP6 price control will be set for a period of 6.5 years. This is a significant period of time for any business to be tied to a business plan. The UR needs to acknowledge this and to provide a degree of flexibility for NIEN.

Given the timeframe of the control it is imperative that incremental investment in the electricity infrastructure takes place. A sustained period of underinvestment of almost 7 years will have detrimental effects for the NI economy particularly given the scale and cost of network projects. We would therefore urge the UR to ensure NIEN is provided with sufficient allowance and an appropriate framework to manage its network in a sustainable and cost effective way.