

Annex – Terms of Reference for Independent Review of Electricity Tariff Announcement

Independent Review of September 2008 Electricity Tariff Review - Terms of Reference

Background

On 10th September NIE Energy Limited announced a tariff increase. This had been approved by the Utility Regulator and had been the subject of consultation with the Consumer Council for Northern Ireland (CCNI). Nevertheless it elicited criticism from the Council and from MLAs, which addressed the transparency of the process and left unresolved doubts about whether the outcome was justified.

Objectives of Review

The Utility Regulator considers it important to maintain stakeholder and consumer confidence in both regulatory process and their outcomes. For this reason it has commissioned Douglas McIlldoon, the former Chairman and Chief Executive of Ofreg, to review its work on this matter. The objectives of the review are: to establish where the process and outcome were robust; to identify where improvements could be made; to explain the role of regulation in the context of wider energy policy; and to ensure these findings are understood by a wide stakeholder group.

Scope

Mr McIlldoon has been asked to look at the following areas:

- The Utility Regulator's scrutiny of the proposed tariff increase;
- The consultation process between NIE Energy, the Utility Regulator, the Consumer Council and the Department of Trade, Enterprise and Investment;
- Whether the outcome (i.e., the 33.3% rise) was justified;
- The Utility Regulator's scrutiny of hedging processes;
- Any regulatory policy areas that should be addressed to improve effectiveness and fairness of risk management in the NI energy industry.

The scope of the Review does not include the wide variety of related policy matters which have been the subject of public consultation (e.g., the NIE Energy supply price controls, or operation of the SEM). However, Mr McIlldoon has been asked to make any other observations on how the short and long-term interests of customers in the electricity market might be promoted, with regard to the price of electricity.

Timing

Mr McIlldoon has been asked to produce a written report by mid-November, with a public seminar presenting these findings to follow in early December.

Work Products from Review

The review is to produce:

- A written report to the Utility Regulator, which will be published without amendments;

- A public seminar (including supporting documents) to explain the review's findings.

Confidentiality

Most of the inputs to electricity tariffs are published. However, some elements are not published as their publication would damage the commercial position of NIE Energy. This is particularly true of its wholesale procurement position, where it is buying on competitive markets.

Mr McIlldoon will have access to this confidential material but has agreed to protect its confidentiality in the way the Review report is written and in public commentary.

Public Input

From the outset there will be an opportunity for consumers and any other stakeholders to make written observations to Mr McIlldoon at electariffreview@btconnect.com.