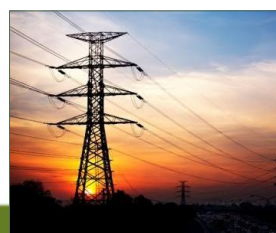


Review of the Effectiveness of Competition in the Northern Ireland Energy Retail Markets - Phase 1 Findings

18 November 2014



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing the markets, networks and corporate affairs functional areas of the organisation. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

Protecting consumers is at the heart of the Utility Regulator's (UR) role and ensuring there is sufficient and effective competition in the Northern Ireland (NI) energy market is an integral part of our statutory duty. The purpose of this review is to establish the basis for assessing the current state of competition and, in turn, highlight areas that may require intervention, further guidance for market participants, monitoring frameworks or changes to the existing regulatory and licensing framework. The first part of the review has now been completed and is the focus of this introductory UR paper and accompanying full report from Cornwall Energy. The collection and analysis of quantitative and qualitative data has been undertaken to provide the context for understanding the impact of competition in NI energy markets and the sentiment of different consumer groups and how these are encouraging or preventing wider market effectiveness.

Audience

Consumers and consumer groups, industry, and statutory bodies.

Consumer impact

The direct consumer impact of this phase of the project is limited as it is a largely an analytical review to assess if energy retail competition in Northern Ireland is effective. The second phase of the project will require the UR to assess if any changes are required to the existing regulatory and licensing framework as a result of the report's findings.

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Introduction

Protecting consumers is at the heart of the Utility Regulator's (UR) role and this is done through licence and codes of Practice enforcement, and through promoting effective competition in the Northern Ireland (NI) energy markets where appropriate. The UR operates to ensure consumers are adequately protected in these markets.

In May 2014 the UR issued an overarching strategy paper¹ setting out our approach to the regulation of energy retail markets in NI. These markets in NI have been developing in recent years, with the arrival of new suppliers in both electricity and gas supply and the opening of new areas for gas supply. The UR's primary statutory duty involves protecting consumers. Competition in energy markets is a means to that end, not an end in itself. Where competition is not sufficiently developed or effective, the UR protects consumers through regulation and this applies to the relevant areas of the electricity and gas supply markets as much as it does to the other sectors of the energy industry.

While price-regulation is often viewed as a surrogate for competition, regulation and competition usually co-exist to some degree. For example, price regulation exists still in half of all EU Member states. This is because regulation fills the consumer protection gaps in an aimed for, but not yet achieved, effectively competitive market. Some form of direct price-regulation has historically been deemed necessary by the UR to deliver and sustain competitive energy retail markets following market opening. Other forms of non-price regulation such as Supplier Codes of Practice are also necessary because even an effectively competitive market cannot necessarily protect consumers in all respects.

¹ UR, "*Strategic Approach to Energy Retail Markets and Consumer Protection: An Information Paper*", (May 2014), http://www.uregni.gov.uk/uploads/publications/Strategic_Overarch_Paper.pdf

In the UR 2014-15 Forward Work Programme, we announced that a significant and strategically important project planned for this year is **to conduct a review of the effectiveness of competition in the retail energy markets in Northern Ireland**. The project provides the basis for assessing the effectiveness of retail competition and the implications for our regulatory framework, given our underlying statutory duties around consumer protection. This will help to inform the development of changes to our regulatory framework, if appropriate, that will be designed in light of the findings.

In July, the UR published an Information Note² that set out in more detail the rationale for the review and the criteria that would be assessed. Consistent with the well-established criteria for such market assessments the following criteria were to be assessed - **weak customer response; weak competition; vertical integration; barriers to entry; and tacit coordination**. The assessment obviously had to be undertaken in the context of the NI market place with its individual characteristics.

The July Information Note also highlighted that there are two distinct stages to this project:

1. The first was to undertake a formal review of the effectiveness of retail competition in our energy markets, and the factors which might limit that competition. It considered the information requirements necessary to monitor the effectiveness of competition (and feed these back into the new UR Retail Energy Market Monitoring (REMM) framework going forward to allow ongoing review); and

² UR, "Review of the effectiveness of competition in the NI retail market: An Information Paper", (July 2014), http://www.uregni.gov.uk/uploads/publications/Info_Note_-_Effectiveness_of_Competition_in_NI.pdf

2. In light of the findings of Phase 1 of the project, Phase 2 will define the appropriate UR policy response and regulatory framework to deal with the issues identified and assess if there is any change required to the current regulatory regime. The UR has been consistently explicit that the scope of Phase 2 is dependent on the outcome of Phase 1.

Phase 1 of the review has just been completed and the UR has received the report of findings from Cornwall Energy, the consultants appointed to undertake the Phase 1 assessment of the effectiveness of competition. The purpose of this document is primarily to make stakeholders aware of the Cornwall Energy report.

Stakeholder briefing event

The UR would like to invite interested stakeholders to a briefing event on the phase 1 findings contained in the Cornwall Energy report. This event will be held at the UR offices from 11.00 to 13.00 on Monday 24th November 2014. This will be an opportunity for Cornwall Energy to provide more detail on the review and answer stakeholder questions.

If you would like to register your interest in attending this event, please contact Samantha Young (samantha.young@uregni.gov.uk) by 2.00pm on Thursday 20th November 2014.

Next Steps

The UR has published the Cornwall Energy report as soon as was practicable in the interests of transparency with stakeholders. The UR is carefully considering the report and will begin the process of scoping out the second phase of the review project. We will engage with stakeholders further in early 2015.