



## Annual Report 2013-14

**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**

**Annual Report 2013-14**

Combined report of the Northern Ireland Authority for Utility Regulation (the Utility Regulator).

The Utility Regulator has decided to produce a combined energy and water and sewerage report in accordance with Article 5 (5) of the Water and Sewerage Services (Northern Ireland) Order 2006.

The Annual Report is laid before the Northern Ireland Assembly in accordance with Article 5 (1) of the Water and Sewerage Services (Northern Ireland) Order 2006 and Article 6 (1) of the Energy (Northern Ireland) Order 2003 by the Department of Enterprise, Trade and Investment.

Under Article 6A of the Energy (NI) Order 2003 (as amended) the Utility Regulator is obliged to prepare an annual report in relation to the activities it has carried out in the preceding 12 months in its capacity as a designated regulatory authority for Northern Ireland. This report shall include a general survey taken and steps achieved by the UR in the performance of its functions under Article 37 of the Electricity Directive 2009/72/EC and Article 41 of the Gas Directive 2009/73/EC. This report is due to be sent to the Department, the European Commission and the Agency (ACER) by the 1 July of each year. Information in this annual report is intended to also fulfil the Article 6A obligation.

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# 1 Chairman's foreword

The past year, both in Northern Ireland and further afield, has been characterised by continuing concerns about both the level of and increases in utility bills. Comparisons with our neighbours and trading partners informed these concerns. Big questions around electricity security of supply in both the medium and long-term were also raised. All this has prompted a broader debate about utility markets and the appropriate levels of investment in utility infrastructure to secure both the present and future, particularly those associated with renewables and sustainable development.

These are challenges for us all. Our role is always something of a balancing act with the challenges of addressing both short-term and longer-term issues. As ever we must strike a balance which protects both today's and future consumers from potential or actual abuses arising from monopoly power and inefficient markets. We support necessary investment provided this is based on effective asset management by the regulated enterprises.

Progress on tackling these large issues has been evident during 2013-14. Our job is to make sure that energy and water bills are only as high as they need to be. The Competition Commission's determination on the NIE price control underlined the importance of our scrutiny of the company's original price control proposals.

We have also, along with the Department of Enterprise, Trade and Investment, pro-actively taken steps to identify and mitigate the impact of electricity security of supply risks. The key to mitigating these risks in the medium to longer-term is the second north-south electricity

interconnector. It is vital that this major extension to the all-Ireland network is delivered as soon as possible.

During 2013-14 we also developed our new corporate strategy for the next five years. We talked, and listened to the views of our external stakeholders and our staff about what we could and should do to protect consumers. These discussions were really helpful and enabled us to focus on and enrich our new strategy. Our strategy for 2014-19 has now been published and we look forward to meeting the challenges of its implementation.

As an organisation the last year was one of big changes. We said goodbye to Shane Lynch as our Chief Executive and to a longstanding Board member, Alan Rainey, and thank him for his considerable contribution since 2007. Harry McCracken, David Strahan and Teresa Perchard joined the Board in September 2013 and have already made significant contributions. Jenny Pyper joined us as Chief Executive in November and her enthusiasm and energy has already made a positive impact with stakeholders and staff.

A handwritten signature in blue ink that reads "Bill Emery".

**Bill Emery**  
**Chairman**

## 2 Chief Executive's report



I am delighted to write this report, my first as Chief Executive of the Utility Regulator.

Energy and water issues really matter to consumers and economic regulation has an important and valuable contribution to make to Northern Ireland.

My focus is on looking forward and emphasising the importance of how we deliver and work with stakeholders – not just what we do, but how we do it. Our new corporate strategy identifies three key objectives.

Firstly, we want to encourage efficient and effective utilities that are successful, invest prudently in their networks and services and earn a reasonable return for their owners. Our regulation also needs to do everything possible to deliver lower costs and prices particularly through our scrutiny of costs and tariffs for energy and water companies.

Secondly, promoting efficient and competitive markets is key. It is vital that competitive wholesale and retail markets deliver for businesses and consumers. Progress on the new wholesale electricity market, the I-SEM, has been encouraging. Our local retail energy market reflects local conditions and balances the best of both worlds – there is regulation but there is also competition. We will make sure that the retail energy market works for local consumers and will review this market during 2014.

We recognise that our work is not just about today; it is also about the future. Protecting the long-term interests of business and domestic consumers is therefore our third corporate strategy objective.

Consumers expect that we will play our part in making sure that the lights will stay on. The

risks to electricity security of supply are known and we have prioritised this issue during 2014. We also need to look at promoting renewables and reduce carbon emissions – so contributing to the achievement of the NI Executive's renewable energy targets. Progressing the Gas to the West project will also be a key challenge..

Finally, we want to make sure that vulnerable consumers are protected. A new customer protection strategy for domestic consumers will be developed to make sure that vulnerable consumers are not disadvantaged by cost or quality of service.

Two underlying themes are important to help us deliver on our plans. Firstly, we do not work in a vacuum, we have stakeholders, partners and others who help us to do our job. We recognise the importance of constructive and ongoing engagement and communication with all of our stakeholders and will strive to improve this. Our partnership with a range of water stakeholders to ensure consumers' priorities are reflected in service improvements is a good example of constructive engagement.

Secondly, we cannot deliver on our plans without the commitment of the people who work for us. In the short time that I have been Chief Executive I have come to recognise the value of the hard-working, dedicated and professional staff that work for the Utility Regulator. They have met every challenge that has been set for them. I have enjoyed working with them and look forward to leading them as we progress our shared agenda.

A handwritten signature in dark ink, appearing to read 'Jenny Pyper', written in a cursive, flowing style.

**Jenny Pyper**  
Chief Executive

## 3 Our year at a glance

### April 2013

We launched a consultation on the conduct of the competitive process to bring gas to the west of Northern Ireland.

Following the rejection of our price control determination by NIE T and D (NIE) we referred the matter to the Competition Commission.

### May 2013

We started the process of recruiting for a new Chief Executive following Shane Lynch's announcement that he was to step down.

We approved changes to NIE's statement of charges for connection to the Northern Ireland electricity distribution system. This included arrangements for generators connecting to the network as part of a group or "cluster" so that they will share network infrastructure.

Following our scrutiny, Power NI announced a 17.8% tariff increase for its domestic and small business customers from 1 July 2014.

We published our response to a review of our consultation practice setting out a new standard for improving how we carry out consultations.

### June 2013

We conducted a series of workshops with stakeholders on developing our new corporate strategy.

Along with the Department of Enterprise, Trade and Investment (DETI), we published an information paper on electricity security of supply in Northern Ireland. The paper set out the factors contributing to the security of supply risk and identified options for addressing the risk.

### July 2013

We announced that Jenny Pyper would be our next Chief Executive.

Our proposals for the Power NI price control were published.

Our decision to certify Premier Transmission Ltd (PTL) and Belfast Gas Transmission Ltd (BGTL) as fully ownership unbundled entities was announced.

### August 2013

We published our joint decision, along with the Commission for Energy Regulation, on the Single Electricity Market Operator (SEMO) price control.

### September 2013

The Minister of Finance and Personnel announced the appointment of Teresa Perchard, David Strahan and Harry McCracken to our Board.

We consulted on licence modifications to further implement the EU's Third Energy Package of Directives (IME3) including, in particular, modifications required in relation to the certification of electricity transmission system operators.

### October 2013

A further consultation on the Marketing Code of Practice for regulated energy suppliers in Northern Ireland was launched by us.

We published a further paper on comparative electricity prices which discussed the main issues arising from our March paper and commented on the way forward.

### November 2013

The Competition Commission published its provisional determination on the NIE price control.

### December 2013

Our cost and performance report covering 2010-13 showed that NI Water had reduced prices while improving services to consumers.

We published, along with DETI, a further information paper around electricity security of supply considerations.

Our gas distribution (GD14) and Power NI price control decisions were published.

We launched a consultation on a draft corporate strategy 2014-19 and forward work programme 2014-15.

We tested electricity supplier of last resort arrangements.

### January 2014

We provided updates on arrangements for offshore generation and gas transmission tariffs for storage.

### February 2014

The SEM Committee published a consultation paper on options for the high level design of the new wholesale electricity market.

We launched a competitive licence application process to extend the gas network to the west of Northern Ireland.

Following our scrutiny, SSE Airtricity announced it was leaving its regulated tariffs for Greater Belfast gas consumers unchanged.

We announced that we had agreed a memorandum of understanding with the Commission for Energy Regulation (CER).

### March 2014

We launched a consultation on the possible cancellation of generating unit agreements.

We approved NI Water's Scheme of Charges which will lead to an average reduction of 4% for NI Water's non-domestic consumers in 2014-15.

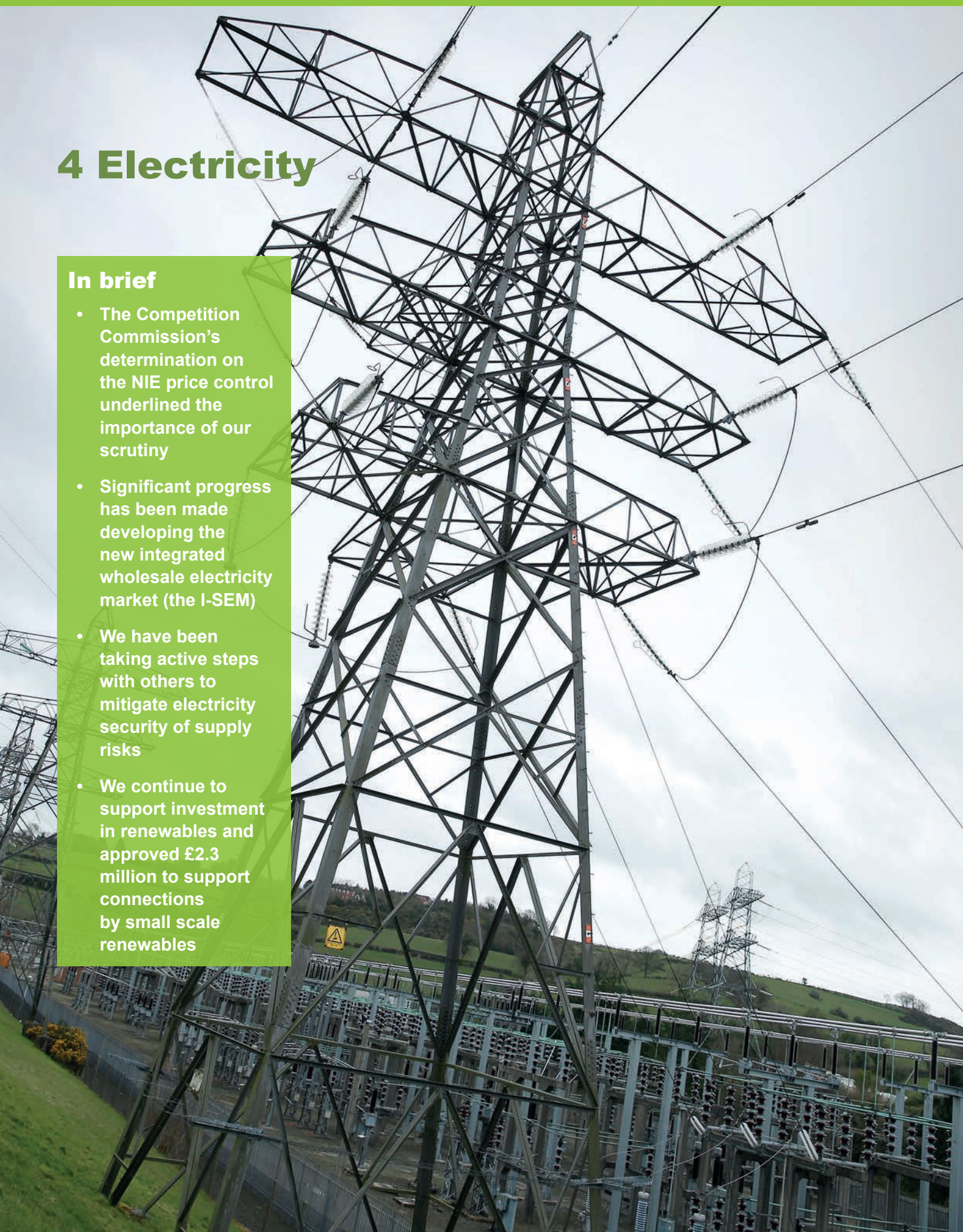
Our decision paper on the energy supplier marketing code of practice was published.

We implemented further IME3 modifications including, in particular, those required in relation to the certification of electricity transmission system operators.

## 4 Electricity

### In brief

- The Competition Commission's determination on the NIE price control underlined the importance of our scrutiny
- Significant progress has been made developing the new integrated wholesale electricity market (the I-SEM)
- We have been taking active steps with others to mitigate electricity security of supply risks
- We continue to support investment in renewables and approved £2.3 million to support connections by small scale renewables



The development of the new integrated wholesale electricity market (the I-SEM) to replace the all-island Single Electricity Market (SEM) was an important context for our work. In the meantime, steps were also taken to improve the effectiveness of the SEM. Concerns over electricity security of supply were evident and the Assembly's Enterprise Trade and Investment Committee published a report on this issue. Progress was also made on developing offshore and small-scale onshore renewables.

### **Promoting efficiency and monitoring the investment plans of regulated companies**

NIE is the owner of the transmission and distribution electricity network in Northern Ireland. As NIE is a monopoly business, we approve the amount of revenue the company can recover from consumers through network charges via a price control process.

Following the rejection of our price control (called RP5) by NIE we referred the matter to the Competition Commission (CC) in April 2013.

After significant engagement with the CC during its inquiry, a provisional determination was published in November 2013. Some detail of this provisional determination was published in last year's annual report. A further period of engagement preceded the publication of the CC's final determination by us in April 2014.

Overall, the CC's final price control determination allowed NIE 6.42% less revenue than our determination. The CC also stated that the NIE's weighted average cost of capital (WACC) should be 4.1%.

The price control determination will provide for over £1 billion of investment by NIE at no additional cost to consumers.

Domestic customers' annual bills will be £10 lower than they would otherwise have been by the end of the new price control period in September 2017.

The CC also included further price control conditions to improve the reporting and monitoring of information to us. These additional regulatory tools are in line with those available to other regulators across the UK.

We have already started constructive engagement and dialogue with NIE on the implementation of the CC's final determination

### ***"The Competition Commission's determination on the NIE price control provides for £1 billion of investment by NIE"***

The SEM Committee (SEMC) issued a price control decision for the Single Electricity Market Operator (SEMO) in August 2013. The decision set out the form of regulation for SEMO and the allowed revenue for the period from 1 October 2013 to 30 September 2016. The publication of this decision followed a consultation process and extensive engagement with SEMO. The allowed revenue decided upon is around £3m lower than that requested by SEMO. Incentives have also been introduced to encourage SEMO to focus on the importance of customer value and service delivery.

## Promoting market opening and competition

The SEM ensures that there is greater transparency around the costs of generation. Further development of new generation on the island of Ireland has increased investment and competition in the wholesale market.

The Market Monitoring Unit (MMU), which is based at our offices, has continued to monitor the SEM over the past year. The MMU engaged with generators and operators to monitor compliance with the market rules.

In June 2013 the SEMC issued guidance as to how generators should treat gas transportation capacity costs when submitting bids to the SEM. Following this publication, the MMU carried out a consultation process into modifying the Bidding Code of Practice. A public consultation on an MMU investigation process manual was also issued in October. This complemented and clarified the existing processes followed by the MMU when carrying out investigations into the bidding activity of SEM market participants.

With a view to increasing transparency, the SEMC issued a paper setting out an analysis of the financial performance of generators operating in the SEM. This report highlights a strong relationship between generators' financial performance and movements in underlying fuel prices. The SEMC expects to issue a further updated report during 2014.

In July the SEMC published an assessment which looked at aspects of the efficiency of the SEM.

The SEMC also explored options to improve the competitiveness and the effectiveness of the regulatory framework of the SEM (in advance of or in tandem with the I-SEM project – see below). Options will be reviewed over the coming months.

Administration of the SEM Capacity Payment Mechanism (CPM) is carried out by us. Following a consultation process a decision for the capacity value for 2014 was published in August 2013. Work has also commenced on setting the CPM for 2015. Additionally, the administration and assessment of a number of other all-island tariffs is carried out by our staff. This includes overseeing consultation processes and assessing tariffs for harmonised ancillary services, other system charges, imperfections charges and generator transmission use of system charges.

The EU's IME3 Directives have continued to promote the liberalisation of the energy market across the EU. IME3 requires the separation of the transmission network from generation and supply (this is called unbundling). The unbundling requirements were transposed into Northern Ireland law by the Gas and Electricity (Internal Markets) Regulations (NI) 2011 as amended. This amended the legislation to ensure separation of the transmission network from generation and supply.

We are required to certify transmission system operators as being in compliance with the full ownership unbundling requirements or one of the alternative unbundling models set out in legislation.



The cost of power generation is the largest element of consumer electricity bills. In March 2014 we launched a consultation on the potential cancellation of the remaining power purchase contracts between Power NI's Power Procurement Business and generators (called Generating Unit Agreements – GUAs).

### **Integrated Single Electricity Market project**

The EU has established the deadline of 2014 for the completion of the internal electricity market. The vision behind this greater integration of the electricity market is called the Target Model. Compliance with the Directive is a legal requirement on all Member States.

The SEM will require significant modifications to implement the target model. This is due to its centralised, gross mandatory pool design which differs in a number of key respects from the Target Model.

Given the changes required to the SEM market the statutory deadline for the completion of the internal electricity market for the island of Ireland is the end of 2016. Significant progress has been made to ensure that our electricity market will be compatible with the Target Model by 2016.

Working with CER colleagues we will create a new electricity market for the Republic of Ireland and Northern Ireland from 2016. We call this the Integrated Single Electricity Market (I-SEM). It is expected that the benefits of the I-SEM will be market transparency and efficiency of interconnection with the wider European market. The I-SEM will also facilitate increased competition in the electricity market in Northern Ireland and Ireland.

The SEM Committee published a formal consultation on four viable high level design options for the new market in February 2014, with a decision on the chosen option due in the

summer. The next stage of this project is the detailed design of the new market and this will commence immediately following the decision on the best market design option.

### **Taking steps to address security of supply and promote sustainability**

We recognise that security of supply and sustainability are interconnected. Achieving diversity in the energy generation mix (including a greater contribution from renewable sources) is an important factor in addressing security of supply concerns.

***“The I-SEM will bring greater transparency, efficiency and facilitate greater competition”***

While security of supply is always a key area of focus for us, several factors have combined to increase security of supply risks for Northern Ireland in the medium-term.

The delay in delivering the planned second north-south interconnector compounded with a fault on the Moyle interconnector means that Northern Ireland has lost important generation capacity. Addressing both of these specific issues is critical.

Compliance with the EU Emissions Directive effective from January 2016 will require the withdrawal of 510MW of generation capacity at Ballylumford power station. It will also place restrictions on generation at the Kilroot power plant, unless measures are taken to upgrade it.

The restoration and introduction of significant interconnector capacity is unlikely to be delivered before 2017. Throughout 2013 we have continued to engage with key stakeholders, such as SONI, on this security of supply issue and feasible measures are currently being progressed. Along with DETI we have published two separate updates on our plans to address security of supply risks.

We have also made progress on offshore renewables during the past year. Following publication of a consultation document seeking views on the methodology to be used to connect offshore generators that have been granted development rights by the Crown Estate, we issued a next steps paper in December 2013.

In October 2013 we approved £2.3m to facilitate additional small scale renewable generation export from the 11kV network to the 33kV network. This approval covers investments at 40 primary (33kV) substations.

We set up a renewables grid liaison group in 2012 to facilitate a coordinated response from the electricity industry to the Northern Ireland Executive's 40% renewable energy target. The group includes representatives from SONI Ltd, NIE Ltd and the renewable generation sector. The group met six times in 2013 and the minutes can be found on our website.

### **Monitoring network security and reliability and promoting service standards**

During the past year we resolved one dispute in regard to connection charging. We are currently progressing active dispute investigations with regard to connection offers and are investigating a number of other potential disputes between developers and licensed enterprises.

Separately, we completed 15 dispute investigations relating to power outages caused by adverse weather during March 2013. In total, 27 enquiries regarding dispute procedures in relation to this event were received. The determinations for these disputes have been placed in the publicly available electricity register.

### **Landbank**

Landbank is the portfolio of land used or held for generating purposes and is managed by NIE under our direction. We directed NIE to realise any value for customers in relation to the Landbank sites taking into account our duties and their suitability for future generation. We have provided direction in relation to each of the relevant land bank sites and NIE is working to progress these in line with its duties.

## 5 Gas

### In brief

- There was no increase in regulated gas prices during the last year
- Our gas distribution price control will lead to a reduction in charges and provide incentives for new customer connections
- We have launched the competitive process to bring gas to the west of Northern Ireland
- Over 50,000 consumers in Greater Belfast have now switched supplier

The natural gas industry in Northern Ireland continued to grow. The further development of the natural gas network was given a boost when we launched the competitive process to bring Gas to the West. We promoted new customer connections through our gas distribution price controls. There was evidence of a healthy investor environment with the purchase of PNGL. European legislation will require significant changes to transmission network codes to facilitate a more integrated European market.

### Protecting consumer interests through our scrutiny of tariffs

Our focus is on making sure that the bills consumers pay reflect the cost of production.

This has led to a situation where domestic gas consumers in greater Belfast enjoy amongst the lowest standard prices in the UK and Ireland.

Over the past year we have carried out two reviews of the Airtricity Gas Supply NI tariffs for domestic and small commercial customers. We concluded that there was no justification for any increase and gas prices have remained stable in the greater Belfast area over the year.

We do not apply the same tariff review process to the firmus Ten Towns area due to the earlier stage of development of this market. However this year we started to develop a tariff review process with firmus supply which should become effective in 2015.

### Promoting efficiency and monitoring regulated company investment plans

A big part of the work of our gas team during the past year was carrying out price controls.

We published our GD14 price control decision

paper in December 2013. This price control applied to both firmus and PNGL gas distribution companies and covered the costs for the gas pipeline networks which run through our towns and cities for the period 2014 to 2017.

Our determination was a significant reduction in the costs sought by the two companies. Distribution charges make up 35% of the typical consumer bill. For the average domestic customer our intervention has led to a saving of around £23 per annum for PNGL customers and £50 for firmus customers.

***“Our gas network price control will lead to a saving of up to £50 per annum for customers”***

We have already commenced work on the next gas distribution network price control to run from 2017.

### Promoting the development of the gas industry

During 2013 we continued our work on dealing with requests for extending the distribution licence area and approved an extension to the firmus licence for the Glenavy area.

We also continued to facilitate more access to gas for the benefit of consumers. As well as approving network gas extensions, we also provided incentives through our price control for more consumer connections. Our final determination provided for an additional 43,334 customers to connect to gas and allowed for 344km of additional gas pipelines to be laid.

In addition, the number of actual new connections made by firmus energy and PNGL in the year significantly outperformed forecasts. There were over 12,200 connections in the PNGL greater Belfast area and over 3,800 in the firmus Ten Towns area. This high ongoing investment will bring real economic and environmental benefits to many more consumers.

***“The number of new connections made by firmus energy and PNGL significantly outperformed forecasts”***

### **Promoting market opening and competition**

The Gas Market Opening Group (GMOG) is a forum established by us to support gas market opening. GMOG enables us to engage with key stakeholders (e.g. licence holders) on market development issues.

During the year we began work on the opening of the gas market for domestic customers across the Ten Towns area. This involves putting a network code in place and updating licences and supplier agreements to ensure the smooth introduction of competition to the area.

The Ten Towns market will be fully opened from April 2015.

Consumer switching in the greater Belfast area has continued successfully with over 50,000 consumers now having switched.

As well as market opening, we continue to engage with DETI on further extending the gas network. We published documents and hosted workshops on extending gas to the west of Northern Ireland. This culminated in publication of a request for applications to extend gas to this area. We expect to be in a position to award licences in the Autumn 2014. This will facilitate the connection of up to 40,000 customers in the area, further extending the economic and environmental benefits of natural gas in NI.

### **Cross border co-operation**

We have been working closely with other regulators in GB and Ireland to progress delivery of the IME3 Directives.

This requires the implementation of a number of new rules at cross border points to facilitate the smoother flows of gas throughout Europe.

We implemented new arrangements on congestion management which came into force in October 2013 through changes to the Bord Gais Eireann (UK) and Premier Transmission Ltd (PTL) network codes. This ensures that the usage of gas pipelines to NI cannot be hoarded and all users have the opportunity to use the network. This will free up pipeline capacity for other users, thus promoting competition. We have also engaged at a European level on the drafting of these new rules. Drafting has

now been finalised on capacity allocation and balancing arrangements and work will continue in 2014-15 on implementing these rules.

In addition we continue work with the gas transmission operators to deliver a more streamlined industry with a single code, single control room, single management team and single IT system. This will lead to a more efficient and co-ordinated industry and work will continue in 2014-15 on implementing this.

We completed our consideration of the ownership structure of PTL and BGTL in line with EU law. This resulted in both companies being certified as fully ownership unbundled.

***“Our work with gas transmission operators will lead to a more streamlined industry”***

### **Consumer protection measures**

We have put in place arrangements to ensure that gas companies comply with guaranteed standards of service.

This became effective on 1 April 2014 and ensures companies are required to deliver against a range of standards to consumers. This includes ensuring consumer complaints are speedily addressed, gas supply interruptions are limited and work on a customers property is quickly reinstated.

Failure to meet the standards results in a payment to the consumer.

We continue to progress implementing IME3



requirements, which have an emphasis on consumer protection measures.

Gas supply companies' codes of practice on marketing, complaints handling, energy efficiency, payment of bills, vulnerable customers and services for pay-as-you-go customers were all put in place. The codes of practice set out what the companies can and cannot do and facilitate monitoring of their activities.

### **Security of Supply**

We published the gas capacity statement which assesses the ability of the NI transmission system to meet future demands on the network. This concluded that the NI gas network continued to be in a position to meet expected demand. We also continue to work with government and industry to meet the requirements of the EU regulation 994/2012 on security of gas supply.

## 6 Retail and Consumer Protection

### In brief

- Increased volatility in wholesale markets led to a 17.8% increase in Power NI's regulated tariffs
- The introduction of a mandatory marketing code of practice significantly increased protection for consumers in energy markets
- We completed a price control for Power NI which will ensure an appropriate level of revenue for the company for 2014-17
- We made a determination on our first ever customer billing dispute.



The issue of energy prices remains high on the political agenda across the UK and Ireland. The Assembly's Enterprise Trade and Investment Committee carried out an inquiry on prices and we contributed to this. Domestic competition in the electricity and gas retail markets continues to develop. Tariff volatility remains an issue as suppliers respond to changing international fuel prices. Member states also continued to implement consumer protection measures arising from the IME3 Directives.

### **Protecting consumers' interests through tariff scrutiny**

Power NI remains the dominant supplier of domestic electricity in Northern Ireland. Our job is to review Power NI's domestic tariff to make sure that its costs are appropriate and efficient.

Under normal circumstances the Power NI tariff is reviewed annually. However, a period of volatility in wholesale electricity costs (which make up 62%<sup>1</sup> of the regulated tariff) during 2013 led to us undertaking an 'in-year' tariff review. Our review scrutinised each of the separate elements which make up Power NI's tariff. We published a tariff briefing paper that set out our assessment of the Power NI regulated electricity tariff.

We also engaged with other key stakeholders such as DETI and the Consumer Council for Northern Ireland (CCNI) during the review process.

Following the review we were satisfied that the increase in Power NI's costs justified a tariff increase. We regrettably agreed to an increase of 17.8% in the Power NI tariff while being mindful of the impact of this on consumers at a time when household budgets were already stretched.

### **Promoting efficiency and monitoring the investment plans of regulated companies**

Power NI is currently the only electricity supply company which is subject to price regulation (due to market share). The company must offer regulated tariffs to all customers (domestic and commercial) that use less than 50MWh per annum.

Previously, regulated tariffs applied to all customers that use less than 150MWh per annum. However, following consultation, the scope and customer coverage of the price control was amended this year. We also scrutinised the costs which Power NI submitted and we set the profit margin at an appropriate level. The total difference between the Power NI proposals and our decision is around £3.64m in each year of the price control. This equates to a saving of £6 per annum per customer or about 1% of the regulated tariff.

The price control has now been consulted on and accepted by Power NI. The licence modifications required to implement the price control have been completed and the control will remain in place until 2017.

1 [http://www.uregni.gov.uk/uploads/publications/Retail\\_Tariff\\_Background\\_Briefing\\_May\\_2013.pdf](http://www.uregni.gov.uk/uploads/publications/Retail_Tariff_Background_Briefing_May_2013.pdf)

### **Cross border co-operation with other regulatory authorities – harmonising retail markets**

We have continued to work with CER and the network companies and suppliers in the area of co-ordinated retail markets. Northern Ireland and the Republic of Ireland now share a single harmonised market schema which allows suppliers to link more efficiently with market operators.

The Retail Markets Co-ordination Steering Group (ReMCoSG), which is co-chaired by us and the CER, supports the ongoing operation of the single all island schema. We meet with market participants through the ReMCoSG to discuss market issues and help to find resolutions which can be either co-ordinated or specific to either part of the island.

The benefits of harmonisation include reduced costs for suppliers in both jurisdictions and ease of entry for new suppliers.

### **Promoting market opening and competition**

Protecting consumers by appropriately promoting effective competition is another of our statutory duties. In 2013, 9% of domestic and 5% of non-domestic electricity customers in Northern Ireland switched their supplier. Since the domestic electricity market opened in 2010 over 200,000 domestic customers have switched supplier and there are currently eight active electricity suppliers in Northern Ireland.

***“Over 200,000 domestic electricity customers have switched supplier since 2010”***

Promoting effective competition requires a transparent wholesale market for suppliers to access. In the all-island SEM, wholesale prices are transparent to all suppliers as they are set as published pool prices. All suppliers have access to the wholesale market and this enables new market entry by small suppliers.

We also began the initial work to carry out a major review of retail market competition in both the electricity and gas markets. We will undertake, and report on, this project in 2014-15.

### **Consumer protection measures**

The EU's IME3 Directives set out a series of measures to make sure consumers are adequately protected in the energy markets.

We have implemented some of the requirements to protect consumers in energy markets through supply licence modifications. Potential supplier mis-selling and poor customer information at the point of sale are barriers to promoting consumer confidence in energy markets. We have mandated that all suppliers must comply with a supplier marketing code of practice which has clear, firm and enforceable rules for protecting consumers. This code of practice was developed through a process of extensive stakeholder engagement and consultation. The Code is due to come into effect in June 2014.



***“Our marketing code of practice has clear, firm and enforceable rules for protecting consumers”***

In addition to developing the marketing code of practice, we have also approved interim codes of practice for: the payment of bills; provision of services for persons who are of pensionable age or disabled or chronically sick; complaints handling procedure; prepayment meter customers and the efficient use of electricity/gas. This process has ensured that all suppliers are providing high levels of customer protection. We will develop minimum standard guidance for these codes and the suppliers' codes will be updated to reflect these minimum standards.

In 2013 we also worked with Power NI and NIE to ensure that Supplier of Last Resort (SoLR) arrangements are in place and fully tested. This will provide reassurance to customers on continuity of supply in the unlikely event of

any supplier exiting from the market. Power NI has been appointed to immediately assume responsibility for providing supply in this situation.

If a customer's billing dispute cannot be resolved by engagement with the supplier, or intervention by CCNI, we may legally determine on the billing dispute. In 2013-14 we made a determination on the first formal billing dispute which was referred to us.

### **Monitoring the retail market**

Continually reviewing the development of the retail energy market in Northern Ireland is another of our statutory duties. This duty has been further enhanced by IME3 which requires us (and all National Regulatory Authorities) to monitor how the competitive market is functioning.

Our current retail energy market monitoring involves the collection, analysis and publication of some key energy supply information. This includes market information such as: the number of active suppliers; supplier market share data and switching information. In addition, we collect information on domestic prices in the gas market and both domestic and non-domestic prices in the electricity market. This has enabled us to make comparisons with energy prices in other EU countries.

This information helps us to understand how supply competition is progressing and the impact it is having on customers' switching attitudes. We also use the information to help us understand the impact of our regulatory decisions and to identify and address risks. By collecting this information we are complying with IME3 requirements as well as increasing transparency.

In November 2013 we published our latest annual Energy Retail Report<sup>2</sup>, which provides information related to market share, activity and domestic prices. In 2013, for the first time in this series of reports, we included comparisons on non-domestic electricity prices between Northern Ireland and other countries in Europe. The report showed that the market share of the three largest suppliers in the electricity sector was over 80% by consumption, while the market share of the two largest suppliers in the gas sector was over 99%. This concentration is higher in the domestic sector than in the non-domestic sector for both electricity and gas.

***“Our energy reports now include comparisons on non-domestic electricity prices between Northern Ireland and Europe”***

In addition to this we have published Quarterly Transparency Reports<sup>3</sup>. These allow an ongoing analysis of the key information on the retail markets. In particular, they show market share trends on a quarterly basis and market activity trends on a monthly basis. They also reflect the last changes in energy prices in Northern Ireland and their comparisons to other EU countries. The last of these reports referred to 2013 Q4 retail information. The published data enables interested stakeholders to understand the activity in our energy markets.

In March 2013 (as reported in last year's Annual Report), we published a report detailing the domestic and non-domestic electricity prices in Northern Ireland in comparison with other European regions<sup>4</sup>. This brought a new level of transparency to electricity prices, particularly with regards to non-domestic customers. As part of this paper we invited responses from stakeholders which have informed further areas of work for us in this area.

We published a further paper<sup>5</sup> in November 2013 which: updated the pricing information from the March paper; highlighted a number of key consultation points and indicated several projects which we plan to undertake. One such project is the network cost allocation project

<sup>2</sup> [http://www.uregni.gov.uk/publications/view/utility\\_regulators\\_annual\\_energy\\_retail\\_reports/](http://www.uregni.gov.uk/publications/view/utility_regulators_annual_energy_retail_reports/)

<sup>3</sup> [http://www.uregni.gov.uk/publications/view/utility\\_regulator\\_publishes\\_retail\\_energy\\_market\\_monitoring\\_report/](http://www.uregni.gov.uk/publications/view/utility_regulator_publishes_retail_energy_market_monitoring_report/)

<sup>4</sup> [http://www.uregni.gov.uk/publications/information\\_paper\\_on\\_northern\\_ireland\\_electricity\\_prices\\_data\\_and\\_compariso](http://www.uregni.gov.uk/publications/information_paper_on_northern_ireland_electricity_prices_data_and_compariso)

<sup>5</sup> [http://www.uregni.gov.uk/publications/electricity\\_pricing\\_paper\\_question\\_and\\_answer\\_document](http://www.uregni.gov.uk/publications/electricity_pricing_paper_question_and_answer_document)

which is being jointly led by us and DETI. This project is currently underway and has committed to analysing the allocation of network related costs between customer groups and across jurisdictions.

The ongoing review of the retail market has enabled us to develop a comprehensive dataset of retail market information. We use the dataset internally to understand the issues in the retail market but it is also used to address external information requests from stakeholders.

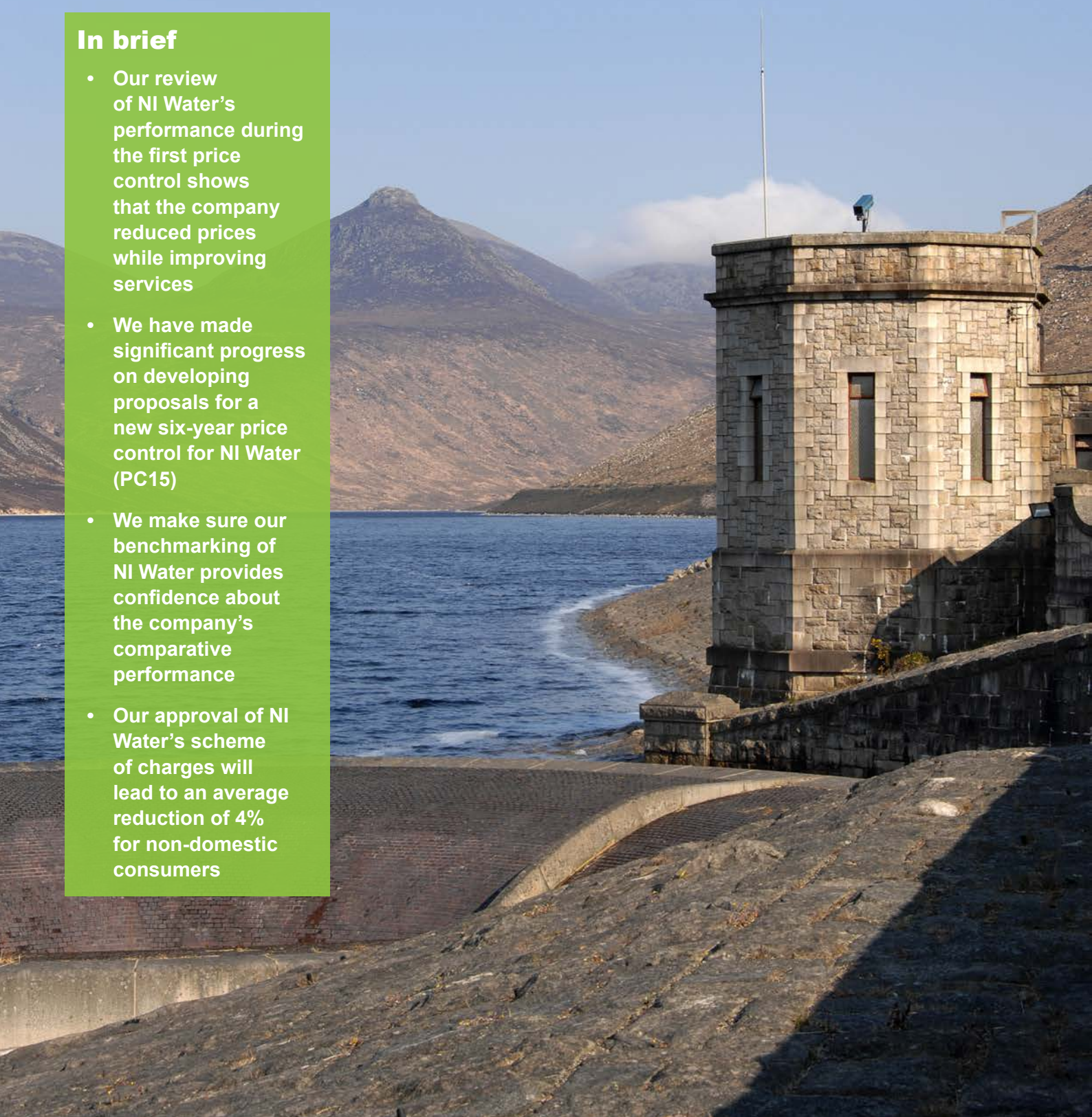
### **Access to consumer consumption data**

The new Energy Efficiency Directive places requirements on Member States in the area of customer consumption and billing transparency. We have worked with DETI to begin the implementation of the Energy Efficiency Directive and we will continue this into 2014-15.

# 7 Water

## In brief

- Our review of NI Water's performance during the first price control shows that the company reduced prices while improving services
- We have made significant progress on developing proposals for a new six-year price control for NI Water (PC15)
- We make sure our benchmarking of NI Water provides confidence about the company's comparative performance
- Our approval of NI Water's scheme of charges will lead to an average reduction of 4% for non-domestic consumers



NI Water continues to be classified as a non-departmental public body and a government owned company. We have continued to work with stakeholders to ensure the best operation of regulatory arrangements. The NI Executive's long-term water strategy was a major reference point for the development of water and sewerage services in Northern Ireland. Our six-year PC15 price control was being developed within this more strategic context.

### Monitoring NI Water's performance

A key part of our work is to monitor NI Water's performance against objectives set in PC10. Our analysis is based on an objective assessment of data and information supplied by the company in response to regulatory reporting requirements. In December we published our cost and performance report assessing NI Water's performance over the company's first regulatory price control period, (PC10). PC10 covered the period 1 April 2010 to 31 March 2013.

NI Water performed well against our price control determination which allowed revenues of £1.09 billion for the three-year period. This was £91 million less than the NI Water bid.

As part of the process we benchmarked NI Water's costs and level of service against other water companies and set challenging targets for improvement.

During this timeframe NI Water faced some significant challenges which include several extreme weather events, the freeze/thaw of 2010-11, flooding in June 2012 and above-average snowfall in March 2013. A significant lesson from the freeze/thaw event was the need for an enhanced focus on communicating effectively with consumers. In response, NI Water worked to improve its ability to respond in

emergencies. This included the introduction of High Volume Call Answering (HVCA) which will help communicate with consumers and provide a better understanding of major events as they emerge.

During PC10, NI Water has also been affected by delays and changes in the available capital funding, arising from its non-departmental public body status. The combined impact was to reduce the planned and prioritised capital investment by £61 million.

Overall we were able to report NI Water had successfully delivered its first regulatory price control, reducing prices and improving services to consumers, as assessed against the PC10 determination and the monitoring plan for the period.

***"NI Water successfully delivered its first price control by reducing prices and improving services to consumers"***

### Setting a new six-year price control for NI Water - PC15

The PC15 price control will set NI Water's price limits for the six-year period 2015-21. We initially published our overall approach in October 2012. This was subsequently followed by detailed 'minded to' papers on efficiency

and asset maintenance. Aside from ensuring greater transparency our approach was aimed at helping NI Water to develop a comprehensive business plan submission for PC15.

In May 2013 we published our information requirements for PC15 which sets a framework for the NI Water business plan submission. These requirements built on the objectives of our PC15 approach to promote a long-term strategic view and provide the space for efficient, sustainable delivery founded on long-term planning. This approach also aligns with the NI Executive's Long Term Water Strategy (LTWS) which has the vision of improving and protecting our natural water environment. The LTWS also aims to create a more sustainable and secure means of delivering wholesome water.

At a practical level, our information requirements were based on the proportionate approach developed for PC13. This approach focused on reducing the regulatory burden on the company to align better with established local practice and improve communication between stakeholders.

During 2013, we have held joint stakeholder quality working groups which have helped us to develop investment priorities for PC15. They have also helped us contribute and respond to the preparation of PC15 social and environmental guidance by DRD which also sits within the context of the Department's LTWS.

We have also contributed to a new approach to consumer engagement working collaboratively with CCNI, DRD and NI Water. It is hoped that this new approach will make sure that consumers' priorities will be key in investment



decisions totalling nearly £1 billion over the next six years. Reflecting consumer priorities for service improvements will play a significant role in our consideration of NI Water's new business plan.

***"We have worked with stakeholders to ensure that consumer priorities are at the heart of the next price control"***

Overall, we have made significant progress on developing the PC15 price control and expect to publish our proposals as scheduled in July 2014.

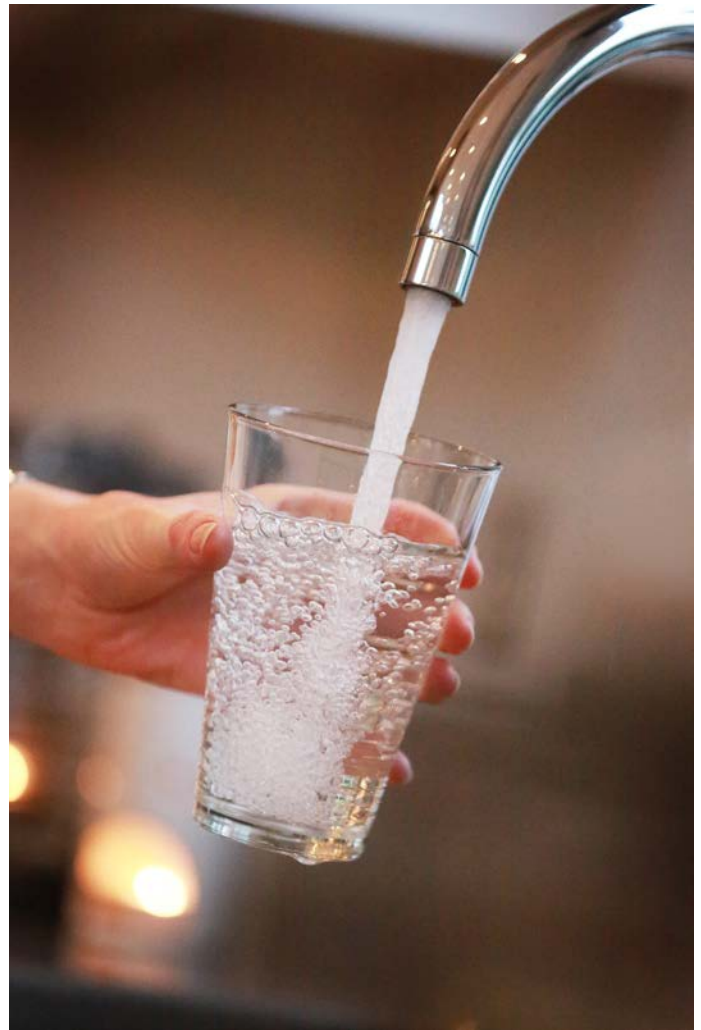
## Reviewing NI Water's PC13 Monitoring Plan

The final determination for PC13 was issued in December 2012 and NI Water published its PC13 monitoring plan - which sets targets and commitments to consumers for delivery. NI Water provides us with quarterly summaries of capital investment and output delivery which are monitored in conjunction with the joint stakeholder Outputs Review Group.

A formal change control process has been implemented to manage those changes which might occur if there are changes in funding, emerging priorities or unforeseen circumstances. In 2013-14, improved treatment at one water treatment works was added to the PC13 programme to secure water quality. A small number of other changes have been tentatively proposed but not concluded. We recognise that change can disrupt the efficient delivery of investment and therefore take comfort from the low level of change to the PC13 programme to date.

## Benchmarking operational and capital expenditure

A key part of what we do is to promote the efficient delivery of services to consumers by monopoly suppliers such as NI Water. We do this by benchmarking NI Water's costs against comparable companies taking account of special factors such as the scale of the company and the local economy. We also consider how the efficiency of the comparative companies might move over time. This work allows us to set achievable but challenging targets.



In preparation for PC15, we set out our approach to efficiencies which we forwarded to the company following a period of consultation. More detailed 'minded to' approach papers were also shared concerning operational efficiency and capital efficiency.

The PC15 process also included earlier engagement with the company on their indicative, or draft, special factors claim. We provided the company with feedback on its special factors claim and draft capex efficiency submission. Additionally, we provided early drafts to illustrate our thinking as regards frontier shift for opex and capex (how efficiencies might move over time due to change in productivity and real costs). We also outlined our thinking regarding what regional price adjustment we might apply to capex costs and we provided a number of range estimates. This emphasis on transparency was necessary

given the new approaches to opex and capex benchmarking and to help NI Water provide a better informed PC15 business plan submission. We received the company's business plan on 24 March 2014.

### **Ensuring customers are charged fairly**

We are required under the Water and Sewerage Services (NI) Order to approve NI Water's annual scheme of charges. The key purpose of the approval is to ensure charges are within the price limits determined by our price controls. We also seek to make sure there is no undue preference or undue discrimination by NI Water in setting charges between different consumer groups.

We commenced the process for setting the scheme of charges in August 2013. As well as assessing information provided by NI Water, we also engaged with other stakeholders, particularly CCNI. Following this engagement and scrutiny, we approved NI Water's charging proposals for 2014-15 in March 2014. This will lead to a reduction in water and sewerage charges by an average of 4% for businesses.

***“We approved an average reduction of 4% for NI Water's non-domestic consumers in 2014-15”***

Separately, we also published a detailed report on the 2013-14 scheme of charges in August 2013. This report describes our approach to approving and assessing NI Water's charging scheme and formally sets out NI Water's approved charges.

## 8 Energy efficiency and sustainability

### In brief

- Over £7.8 million of funding was provided to energy efficiency schemes under the Northern Ireland Sustainable Energy Programme (NISEP); 80% of this funding was targeted at schemes for vulnerable consumers
- Our support for renewable development was demonstrated by a record number of accreditations of additional generating stations able to claim Renewables Obligation Certificates (ROCs)
- Following our provision of fuel mix calculations for all suppliers on the island of Ireland, consumers are now able to understand and verify the environmental impact of their electricity consumption



## 8 Energy efficiency and sustainability

Northern Ireland's Sustainable Development Strategy remains a focus for our work. DETI has initiated a review of the costs and benefits of meeting the renewable generation target outlined in the Strategic Energy Framework (SEF). Separately, DETI is also leading on the roll out of new support arrangements for renewables arising from electricity market reform. The need to comply with the EU Energy Efficiency Directive will be a major focus during 2014.

### Promoting sustainable energy for consumers – the Northern Ireland Sustainable Energy Programme

We have a duty to promote efficiency, in the use of electricity and gas, and sustainable long-term energy supplies with due regard to the environment and vulnerable consumers. The NISEP delivers energy efficiency measures with 80% of the funding aimed at vulnerable/low-income consumers.

Over £7.8 million of NISEP funding was spent in 2012-13. The 2012-13 schemes (the most recent year of reported data) delivered approximately 644 GWh of energy saved which equates to £84.9 million of gross customer benefits (both figures are calculated using Net Present Value, NPV, over the lifetime of the measures).

For the year 2013-14, a total of £9 million in NISEP funding (this figure includes underspend from previous years) was made available for schemes. Post-implementation reviews will verify the outputs and benefits from these schemes over the coming months.

#### Key NISEP numbers:

- over £7.8 m was spent on NISEP schemes overall;
- total lifetime energy savings were a substantial 644.38 GWh.
- 117,112 tonnes of lifetime carbon savings;
- £84,906,832 in lifetime gross consumer benefit savings; and,
- £140,004 was earned in incentives for over achievement on energy-saving targets.

During the year we also worked with DETI to support their consultation on policy proposals regarding the European Energy Efficiency Directive and its implications for Northern Ireland electricity and gas consumers.

We have also been working with DETI on Electricity Market Reform.



### Supporting renewable development

We are committed, wherever appropriate, to playing our role in increasing the proportion of electricity generated from renewable sources in Northern Ireland in support of NI Executive energy policy.

We have a statutory responsibility to administer the Northern Ireland Renewable Obligation (NIRO). The NIRO is a statutory requirement on electricity suppliers to source an increasing amount of their electricity from renewable sources. Suppliers can meet their obligation by either presenting Renewable Obligation Certificates (ROCs) or paying into a buy-out fund. ROCs are issued directly to renewable generators.

Within the year 2012-13, 762 additional generating stations in Northern Ireland received ROC accreditation (over 90% of which were micro-generators). 90% of ROCs issued in Northern Ireland went to on-shore wind generating stations.

### The Climate Change Levy Exemption Scheme

We continue to manage and administer the Climate Change Levy (CCL) scheme, issuing Levy Exemption Certificates (LECs) to accredited generators in Northern Ireland and the Republic of Ireland.

The CCL is a tax on energy used by businesses. In relation to electricity the tax requires suppliers to charge commercial customers an extra £5.24 per MWh in 2013-14. Electricity produced from designated renewable and good quality combined heat and power (CHP) sources is exempt from the CCL.

We accredited a further 62 generators for the CCL Exemption scheme in 2013-14 and audited twelve generators during the year, 6 from each jurisdiction.

Overall, the scheme contributed to the promotion of renewable generation in Northern Ireland.

## **Providing fuel mix information to consumers**

Electricity suppliers are required to specify in billing information and promotional materials the contribution of each energy source to the overall fuel mix of the supplier over the previous year. This requirement derives from the EU's IME3 Directives. In addition, suppliers are required to provide information on the environmental impact of their electricity.

In July 2013 we provided suppliers with fuel mix calculations for the year 2012, in an easily comparable format.

Consumers are now better able to understand and verify the environmental impact of their electricity consumption.

## 9 Efficient and effective regulator

### In brief

- We carried out a significant programme of work during 2013-14 to deliver a new corporate strategy for the period 2014-19
- We significantly advanced our engagement with other regulators to make sure that we can learn and avail of best practice elsewhere
- We completed an initial review of how we are organised to help us deliver our new corporate strategy, work better with our stakeholders and provide opportunities for our staff



## 9 Efficient and effective regulator

### MAKING THE BEST OF OUR RESOURCES

#### Our finances

As a non-ministerial government department, our funds are voted by the Northern Ireland Assembly. We account for these annually in our statutory accounts which can be obtained from the Stationery Office or from our website ([www.uregni.gov.uk](http://www.uregni.gov.uk)).

A summary of our financial performance for the year ended 31 March 2014 is included at Appendix 1. Most of our costs are recouped from annual fees paid by electricity, gas and water licensees. Table 1 provides an overview of the key figures.

**Table 1: Overview of financial position**

Expenditure	Actual
Operating costs (gross)	7,414
Income	(7,175)
Operating costs (net)	<b>239</b>

We are committed to the prompt payment of bills for goods and services received. During 2013-14 the standard payment was 95% of undisputed invoices within 10 days. We achieved this each month during the year and reached a 100% standard during five specific months.

#### Developing our staff

Our staff group is diverse and mostly directly recruited. We also have a small group of secondees from the NI Civil Service (NICS).

During 2013-14 our absence rate was 2.7% (6.8 days per employee), well below the NICS target.

We recognise the value of supporting the development of our staff. This has included providing in-house training, supporting staff on work-related higher education and other learning and development opportunities. We also facilitate inward secondments and student placements.

We also recognise the value of the wider social and corporate responsibility agenda. We are now a member of Business in the Community. This will provide an opportunity for our staff to participate in activities that will have a positive impact on the wider community. Separately, our staff have undertaken a series of events during the year to fundraise for charities.





## PERFORMING EFFECTIVELY AS A REGULATOR

### Reviewing our Corporate Strategy 2009-14

We carried out a significant programme of work during 2013-14 to deliver a new corporate strategy for the period 2014-19. This involved much engagement and communication with our stakeholders. During May and June in 2013 we undertook a series of workshops internally and externally to help us shape our new strategy. In December we published our draft strategy for consultation.

The consultation on our draft strategy closed in February. Our Board reviewed responses to the consultation and agreed a new strategy in March.

The core of our new strategy is focused on three objectives:

#### Objective 1

- Encouraging efficient and effective monopolies

#### Objective 2

- Promoting efficient and competitive markets

#### Objective 3

- Protecting the long-term interests of business and domestic consumers

We subsequently published our new strategy in May 2014.

### Forward Work Plan 2013-14

Our FWP sets out the key projects that we intend to undertake each year.

Overall, we achieved or partially achieved 87% of the time-limited tasks listed to be completed during 2013-14.

Appendix 2 sets out the FWP projects for 2013-14. We report on the status of each project (in terms of achievement).

### Enhancing how we work

We identified several areas where we thought we could improve how we work.

During the latter part of 2013-14 we began the process of looking at how we are organised. The objectives of this review were to help us deliver our new corporate strategy, work better with our stakeholders and provide opportunities for our staff. By the end of March we had put in place a new high-level structure and allocated directors to lead positions. The new high level structure consists of three organisational groupings; Markets (both wholesale and retail), Networks (electricity, gas and water) and Corporate Affairs. We expect to complete the review by Summer 2014.

Our stakeholder engagement programme continued to provide opportunities for us to reach out to more organisations than ever. In particular, we continued to undertake a range

of initiatives to support the participation of stakeholders (e.g. major price control review workshops).

We also advanced efforts to improve accessibility. This included the development of a standard organisational publication format to improve the consistency and accessibility of our documents.

We also published a new approach to consultation in May 2013. This focused on providing more information about our consultations, a more timely approach throughout our consultation process and better communication.

Towards the end of 2013-14 we started developing a new communications strategy. The objective of this strategy will be to enhance understanding of us and the value of our work. We intend to increase the scope of our communications with stakeholders, enhance our communication channels (e.g. our website) and improve the way we communicate (e.g. by producing our documents in a more accessible way).

Enhancing how we work is also about how we learn from best practice. During 2013-14 we significantly increased our engagement with other regulators to make sure that we can learn and avail of best practice.

We are now members of the newly established UK Regulation Network (UKRN) along with other regulators from across the UK. This will ensure effective co-operation between sectors, explain and take account of differences while maximising shared approaches in the interests

of consumers and the economy. The UKRN will also produce its own workplan which members will participate in as appropriate.

The UK Competition Network (UKCN) was also established in 2013-14 and it aims to promote competition for the benefit of consumers and to prevent anti-competitive behaviour. We are also a UKCN member and it provides a vehicle for work between the Competition Markets Authority (CMA) and sector regulators.

Separately, we continued to develop our relationship with the CER. This led to us agreeing a Memorandum of Understanding (MoU), which we published in February 2014.

The MoU sets out how we will work together to ensure the efficient delivery of both joint and separate statutory remits and for the customers of the energy and water sectors we regulate.

## **CORPORATE GOVERNANCE**

### **Governance and audit**

DFP appoints the Chairman and members of our Board. Alan Rainey completed his second term of appointment at the end of September 2013.

Three new Board members were appointed to the Board from 1 September 2013. These are Harry McCracken, Teresa Perchard and David Strahan. Richard Rodgers and William Cargo were re-appointed for a further term from 1 January 2014. The Chief Executive (CEO) is the organisation's accounting officer and an ex-officio member of the Board.

Following Shane Lynch's departure in 2013, Jenny Pyper was appointed as CEO from 1 November 2013.

We are accountable to the Northern Ireland Assembly and produce an annual report which DETI lays before the Assembly. Our decisions are subject to external review by for example the CC and the courts. Assembly Committees may ask for evidence to be given on matters relevant to their work.

We received an unqualified opinion from the Northern Ireland Audit Office in respect of the 2013-14 accounts.

Our internal audit was provided by Capita Consulting (formerly Tribal Helm). Areas reviewed during the past year included communications, governance, human resources, payroll, project management, price control processes and travel. We achieved a "substantial" overall assurance rating.

### **Board and Board sub-committees**

Our Board formally met nine times during 2013-14.

Our Board continued to undertake a planned series of meetings and activities with a diverse range of stakeholders. Board members and external guests also provided briefings on a range of topics.

Our Board also undertook an assessment of its effectiveness during the year. The assessment considered the Board's role and objectives, governance and risk, Board composition and operation, Board performance and decision-making and review and development. Seven actions were identified for enhancing the Board's effectiveness and these are being progressed.

Our senior management team continued to meet weekly.

Our Audit and Risk Committee met four times. Its membership comprises James Oatridge (independent chair), Richard Rodgers and David Strahan (following his appointment to the Board from 1 September 2013). The chair of the Board may also attend meetings. The Committee is supported by members of the executive team attending by invitation. The Northern Ireland Audit Office and the Head of Internal Audit have standing invitations to attend meetings of the Committee.

Our Remuneration Committee met twice. Its membership comprises: Bill Cargo, Alan Rainey (until 31 August 2013) and, following her appointment to the Board from 1 September 2013, Teresa Perchard. The chair of the Board may also attend.

During the past year the Board Advisory Forum (BAF) for water and energy (covering electricity and gas) met five times. Membership comprises non-executive directors and senior staff working in the utility directorates. The BAF provides a vehicle for the office to benefit from the advice and guidance of non-executive directors as well as more detailed challenge/scrutiny on the key policy issues.

The SEM Committee meets monthly to take decisions in respect of the exercise of relevant functions of CER or us in relation to a SEM matter on behalf of each regulator. Northern Ireland's current SEM Committee members (as of 31 March 2014), appointed by DETI and the Department of Communications Energy and Natural Resources are Jenny Pyper and Bill Emery.

## **Information technology and governance**

Our Information Management Committee oversees governance arrangements for the provision of secure and efficient information storage and transfer. During the year, significant progress was made towards the design of a file plan which would also facilitate migration to an electronic data records management system.

Most of our IT services are provided by IT Assist, the Northern Ireland Civil Service managed service provider of IT services. This provides a secure, fully-managed IT support service and we are looking at a number of possible developments to enhance service delivery through the use of IT and related telecommunication advances during 2014-15.

## **Freedom of Information**

In 2013-14 we received nine requests under the Freedom of Information Act. Responses to all requests were issued within the statutory period prescribed by the Freedom of Information Act 2000.

## **Appendices**

# Appendix 1 - Financial report for the year ended 31 March 2014

## Central government financing

£239,000 was borne by central government in respect of expenditure on areas not covered by current licences such as management of the CCL exemption scheme, the Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) scheme and the Renewables Order (Northern Ireland) 2005 scheme and notional costs.

## Licences

A breakdown of licence fee income is set out in Table 2 below.

Table 2: Licence fees by utility	Total licence fees (000s)
Electricity	3,473
Gas	1,999
Water	1,142

We also collect fees on behalf of CCNI. This is for work done under the Energy (Northern Ireland) Order 2003 and Water and Sewerage Services (Northern Ireland) Order 2006. The total fees collected were £832,156, of which £230,637 was attributed to electricity, £172,978 to gas and £428,541 to water.

## Accounts

The Statement of Comprehensive Net Expenditure shows that salary costs decreased from the previous year (£4,619,000 in 2012-13 against £4,363,000 for 2013-14). This reflected the fact that there was an additional PAYE liability of £128k in 2012-13 coupled with lower staff substitution costs in 2013-14. Other costs decreased mainly as a consequence of a provision taken in 2012-13 offset by an

increase in the costs of administering renewable schemes and higher managed services costs.

The percentage of staff costs to total costs in 2013-14 of 59% represents an increase from that in 2012-13, 56%.

Our gross expenditure in pursuit of our objectives as detailed in the Statement of Operating Costs by Operating Segments (see Table 3) was as follows.

Table 3: Expenditure by segment	2013-14 (£000s)	2012-13 (£000s)
Segment 1 (electricity)	4,130	5,046
Segment 2 (gas)	2,080	1,948
Segment 3 (water)	1,204	1,296

More detailed financial information on costs can be found in our accounts.

The Statement of Comprehensive Net Expenditure (the public sector equivalent of an income and expenditure account) and a schedule setting out our financial performance in pursuit of our objectives are set out in Tables 4 and 5. These figures were subject to final audit at the time of publication of this report.

Table 4: Operating cost statement	2013-14 (£000s)	2012-13 (£000s)
<b>Programme costs</b>		
Staff costs	4,363	4,619
Other (non-staff) costs	3,051	3,671
<b>Total costs</b>	<b>7,414</b>	<b>8,290</b>
Operating Income	(7,175)	(8,308)
Net operating cost	239	(18)

<b>Table 5: Costs by objective for the year ended 31 March 2014</b>	<b>2013-14 (£000s)</b>			<b>2012-13 (£000s)</b>		
	<b>Gross</b>	<b>Income</b>	<b>Net</b>	<b>Gross</b>	<b>Income</b>	<b>Net</b>
<b>Segment 1</b> To protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate, by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity.	4,130	4,034	96	5,046	4,953	93
<b>Segment 2</b> To promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.	2,080	1,999	81	1,948	2,122	(174)
<b>Segment 3</b> To protect the interests of water and sewerage services, where appropriate by the promotion of effective competition.	1,204	1,142	62	1,296	1,233	63
<b>Total</b>	<b>7,414</b>	<b>7,175</b>	<b>239</b>	<b>8,290</b>	<b>8,308</b>	<b>(18)</b>

## Appendix 2: Progress against Forward Work Programme targets, 2013-14

Ref.	Lead Directorate	Strategic Theme	FWP Project	Status (includes due by for reference)	Outcome
1	R&S	Monopoly Regulation	Complete Power NI price control for the period commencing April 2014.	Q4	Achieved
2	R&S/E/G	Monopoly Regulation	Complete wholesale, network and retail regulated tariff reviews for electricity and gas including in-year monitoring of over/under-recoveries.	Q2	Achieved
3	R&S/E/G	Regulatory Framework	Assist DETI to deliver supply and distribution licence exemptions and guidance as required by new DETI legislation.	Q1	Achieved
4	R&S	Competition	Implement further supply licence and retail market monitoring on: <ul style="list-style-type: none"> <li>• licence and new Codes of Practice compliance</li> <li>• EU mandatory requirements</li> <li>• more gas coverage</li> <li>• non-domestic electricity prices.</li> </ul>	Q4	Partially achieved. Some slippage in this project due to other work pressures. Market monitoring is now a 2014/15 FWP flagship project.
5	R&S/E/G	Protection	Ensure ongoing compliance with IME3 customer protection framework (e.g. revised consumer checklist and if necessary UR guidelines on energy bills).	Q3 for R&S Q4 for E Q1 for Gas	Achieved.
6	R&S	Competition	Begin review of effectiveness of competition in electricity retail markets and implications for NI regulatory framework.	Q4 This project will continue into 2014/15	Achieved
7	R&S	Regulatory Framework	Implement new and enhanced supplier Codes of Practice following IME3 (in relation to marketing (new mandatory code), customers in debt, vulnerable customers, energy efficiency, prepayment customers and complaints handling).	Q4	Partially achieved. Enhanced supplier codes of practice being consulted on.
8	E	Harmonising energy markets	Influence and develop in conjunction with the Commission for Energy Regulation (CER), Ofgem and ACER, interim and enduring arrangements for regional integration of the electricity market, by January 2014 and January 2016 respectively.	Q4	Achieved
9	E	Monopoly Regulation	Consider annual reporting for NIE T and D (including network developments and renewable generation and connections). This will also include the implementation of the "Reporter" role.	Q3	Revised due to later publication of the Competition Commission's final determination.

Ref.	Lead Directorate	Strategic Theme	FWP Project	Status (includes due by for reference)	Outcome
10	E	Regulatory Framework	Determine and implement offshore connection policy and consult on new offshore generation licensing.	Q4	Partially achieved – Offshore next steps paper published.
11	E	Sustainability	Consult on arrangements for the roll-out of smart metering in NI.	Q4	Revised - to be advanced during 2014-15
12	E	Sustainability	Implement arrangements for payments to generators if a fuel security event occurs.	Q4	Revised – expected to be completed during Q2 2014
13	E	Monopoly Regulation	Complete SEMO price control for the period commencing October 2013.	Q3	Achieved
14	E	Monopoly Regulation	Implement new licence modifications and monitoring arrangements for an independent TSO in accordance with IME3 requirements.	Q4	Achieved
15	E	Sustainability	Assess options and take action if necessary to ensure generation security of supply in NI beyond 2016.	Q4	Achieved
16	E	Sustainability	Consider arrangements proposed by Moyle Interconnector Limited to ensure long-term reliability of the Moyle interconnector.	Q4	Achieved – our contribution on this is complete
17	E	Competition	Implement effective market monitoring for intraday trading.	Q1	Revised due to competing priorities
18	E	Regulatory Framework	Implement generation connection policy and firm access quantity allocation.	Q2	Achieved
19	G	Monopoly Regulation	Determine on any proposals to extend the natural gas network including licence award competition where required.	Q4	Achieved
20	G	Harmonising energy markets	Implement IME3 regulation requirements in light of CAG project review including entry exit tariff system and single TSO.	Q4	Partially achieved – we completed implementation of congestion management rules
21	G	Harmonising energy markets	Work with ACER to finalise and implement EU network codes at interconnector points.	Q4	Partially achieved – the balancing code has now been finalised and work continues on implementation.
22	G	Monopoly Regulation	Complete price control for firmus Distribution.	Q3	Achieved
23	G	Monopoly Regulation	Complete price control for Phoenix Natural Gas Distribution.	Q3	Achieved

Ref.	Lead Directorate	Strategic Theme	FWP Project	Status (includes due by for reference)	Outcome
24	G/CA/R&S/E	Sustainability	Work with DETI on the formulation and implementation of Energy Efficiency Directive requirements	Q4	Partially achieved, work with DETI in respect of Energy Efficiency Directive Regulations for NI is ongoing. During 2014-15 UR will develop licence or code modifications as necessary.
25	W	Monopoly Regulation	Advance price control for NI Water (PC15) in line with published approach document and associated programme timetable. Finalise by December 2014.	Q4	Achieved
26	W	Monopoly Regulation	Review NI Water's PC13 Monitoring Plan to ensure that PC13 FD outputs are properly reflected.	Q4	Achieved
27	W	Regulatory Framework	Review approach to Opex and Capex benchmarking to inform approach for PC15.	Q2	Achieved
28	CA	Organisational development	Produce a new Corporate Strategy for the period 2014-19 and a revised organisational structure to deliver it as required.	Q4	Achieved
29	CA	Sustainability	Ensure the requirements of the Renewable Obligation Order (2013) are effectively implemented and work with DETI on the introduction of new support mechanisms for renewables, post the Renewables Obligation (including working with DETI to assess electricity market reform proposals).	This work will be ongoing throughout the year	Achieved.
30	CA	Sustainability	Continue to operate and improve the Climate Change Levy Exemption process taking due consideration of any updates that will be required by the Finance Act 2013.	Q4	Achieved
31	CA	Regulatory Framework	Work with the Competition and Markets Authority and other regulators to develop a shared approach to dealing with competition issues.	Q4	Achieved
32	CA/E/G/R	Sustainability	Work with DETI to progress implementation of the Energy Bill.	Q4	Achieved
33	E	Monopoly Regulation	Support the Competition Commission in reaching a final determination for NIE T and D price control.	Q3	Achieved

## Appendix 3 – Glossary and list of abbreviations

<b>Ancillary services</b>	Provides non-technical assistance and support.
<b>Capital expenditure</b>	Also referred to as capex. Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment. These expenditures can include everything from repairing a roof to building a brand new factory.
<b>Capacity Payment Method</b>	This is a method of remunerating generators for providing their generation capacity to the market.
<b>Capacity value</b>	Is a fixed 'pot' of money that is calculated on an annual basis by the Regulatory Authorities, with technical assistance from the System Operators.
<b>Climate Change Levy</b>	CCL is a tax on energy used by businesses. It was announced in the March 1999 budget and implemented on 1 April 2001.
<b>Common Arrangements for Gas</b>	A project to establish all-island common arrangements for gas, whereby all stakeholders can buy, sell, transport, operate, develop and plan the natural gas market north and south on an all-island basis.
<b>Cost and Performance Report</b>	An annual report that outlines our independent assessment of how NI Water has performed against efficiency targets and key performance indicators outlined in their price control. Where appropriate, we also compared NI Water's performance with water and sewerage companies in England, Scotland and Wales. These reports are available on our website.
<b>Electricity market reform</b>	A programme to assist government to achieve the 2020 renewable generation targets.
<b>Energy Retail Report</b>	An annual report that provides information on the regulated energy sector in Northern Ireland, which is available on our website.
<b>Generator Unit Agreements</b>	Long-term contracts between two parties, one who generates electricity for the purpose of sale and another one who buys the electricity. Also referred to as Power Purchase Agreements.
<b>Guaranteed Standards of Service</b>	Standards of service that utility companies must adhere to and that consumers can expect.
<b>High level design</b>	In relation to the SEM, it is a set of principles that underline the trading arrangements of the wholesale electricity market.
<b>Large industrial customers</b>	Customers using over 20,000 MWh of electricity.
<b>LECs</b>	Levy Exemption Certificates are issued through the Climate change Levy scheme to accredited generators in Northern Ireland and the Republic of Ireland.
<b>Long Term Water Strategy</b>	DRD's development plan for Northern Ireland's water industry, which will specifically deal with climate change and extreme weather conditions.
<b>Margin</b>	Profit made or the amount by which the price of something exceeds its cost.
<b>National regulatory authorities</b>	The regulatory authority on energy for a country, for example, in Northern Ireland this would be the Utility Regulator for Northern Ireland and CER for the Republic of Ireland.

<b>Network code</b>	Contractual arrangements between the network system operator and network users.
<b>Operating expenditure</b>	Also referred to as opex. Ongoing cost for running a product, business or system.
<b>Quarterly Transparency Reports</b>	Quarterly reports that provide a range of information about the retail electricity and gas markets in Northern Ireland, for both domestic and non-domestic customers. These reports are available on our website.
<b>Regulatory Asset Base</b>	It is the value of the regulated business on which it can earn a return and the capital base used in setting charge limits. It is also known as the 'regulatory capital value' and the 'regulatory asset value'.
<b>Renewables Obligation Certificates</b>	Are green certificates issued by the Utility Regulator to operators of accredited renewable generating stations for the eligible renewable electricity they generate. Operators can then trade the ROCs with other parties, with suppliers ultimately using the ROCs to demonstrate that they have met their obligation.
<b>Target Model</b>	The vision behind the greater regional integration of the wholesale electricity market.
<b>Ten Towns</b>	A gas distribution network which includes the major towns outside Belfast along the transmission pipe, which are served by firmus energy.
<b>Weighted Average Cost of Capital</b>	The cost of capital allowed by a regulator reflects the opportunity cost of the funds invested in assets. The weighted average cost of capital (WACC) is weighted by a mixture of debt and equity. It is expressed as a percentage of their investment and is used by regulators to set the level of allowed returns. See also vanilla, real.

# Abbreviations

<b>ACER</b>	Agency for the Cooperation for Energy Regulators
<b>BAF</b>	Board Advisory Forum
<b>BGTL</b>	Belfast Gas Transmission Ltd
<b>CAG</b>	Common Arrangements for Gas
<b>CC/CMA</b>	Competition Commission/ Competition and Markets Authority
<b>CCL</b>	Climate Change Levy
<b>CCNI</b>	Consumer Council for Northern Ireland
<b>CER</b>	Commission for Energy Regulation
<b>CPM</b>	Capacity Payment Mechanism
<b>DETI</b>	Department of Enterprise, Trade and Investment
<b>DFP</b>	Department of Finance and Personnel
<b>DRD</b>	Department for Regional Development
<b>FWP</b>	Forward Work Programme
<b>GD14</b>	Gas distribution price control 2014
<b>GMOG</b>	Gas Market Opening Group
<b>GSS</b>	Guaranteed Standards of Service
<b>GUAs</b>	Generator Unit Agreements
<b>I&amp;C</b>	Industrial and Commercial
<b>IME3</b>	Third Internal Energy Market Package
<b>I-SEM</b>	Integrated Single Electricity Market
<b>LECs</b>	Levy Exemption Certificates
<b>LTWS</b>	Long Term Water Strategy
<b>MMU</b>	Market Monitoring Unit
<b>MWh</b>	Megawatt hour
<b>NRA</b>	National Regulatory Authorities
<b>NIAO</b>	Northern Ireland Audit Office
<b>NIE (NIE T and D)</b>	Northern Ireland Electricity
<b>NIRO</b>	Northern Ireland Renewable Obligation

<b>NISEP</b>	Northern Ireland Sustainable Energy Programme
<b>OPA</b>	Overall Performance Assessment
<b>PC10</b>	Price Control (for NI Water) 2010
<b>PC13</b>	Price Control (for NI Water) 2013 - 2015
<b>PC15</b>	Price Control (for NI Water) 2015
<b>PNGL</b>	Phoenix Natural Gas Limited
<b>PPB</b>	Power Procurement Business (Power NI's)
<b>PTL</b>	Premier Transmission Ltd
<b>ReMCoSG</b>	Retail Markets Co-ordination Steering Group
<b>RGLG</b>	Renewables Grid Liaison Group
<b>ROCs</b>	Renewable Obligation Certificates
<b>RP5</b>	Regulatory Price Control Period 5
<b>SEF</b>	Strategic Energy Framework
<b>SEMC</b>	Single Electricity Market Committee
<b>SEMO</b>	Single Electricity Market Operator
<b>SoLR</b>	Supplier of Last Resort
<b>SONI</b>	System Operator of Northern Ireland
<b>TSC</b>	Trading and Settlement Code
<b>TSOs</b>	Transmission System Operators
<b>WACC</b>	Weighted Average Cost of Capital



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