



Corporate Strategy

2014-2019

Contents

1 Introduction	7
Who we are	7
2 Strategic context	13
What we have achieved since 2009	14
Challenges from 2014	16
3 Our strategy	19
Protecting consumers	19
Our approach to developing our strategy	19
Our strategy	20
Delivering our strategy	24
Appendix 1: Glossary of key terms	26

Foreword

We are pleased to mark another significant milestone – the publication of our second corporate strategy for the period 2014-2019.

The strategy is the outcome of a process of development led by the board and the senior management team. This has involved extensive discussions within our organisation. We have also benefited from the contributions from other organisations that took part in workshops and briefings and responded to our formal consultation.

All of these contributions have been valuable and have influenced our strategy. We have focused on identifying what success looks like for the companies we regulate, for consumers and for us as an organisation. The focus on outcomes is a clear signal of our desire to make sure that our strategy will make a difference.

Our strategy sets the direction for our work over the next five years. The board and senior management team will now work together to take this forward. Through the development of the strategy we recognise the opportunity we have to make a difference to Northern Ireland. We want to support successful utility companies who innovate,

invest in infrastructure, aim for excellence in managing their network assets and deliver high standards of performance at the lowest cost to consumers. By achieving this level of success, Northern Ireland as a whole can benefit.

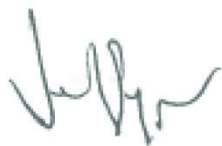
Creating a new wholesale electricity market and supporting effective and more competitive energy markets will promote investment and choice for consumers and contribute to the overall competitiveness of the Northern Ireland economy.

Our strategy also sets out how we will protect the long-term interests of consumers in Northern Ireland. We identify how we will tackle issues that matter to business and domestic consumers. This includes our commitment to keep the lights on and the importance of the second north-south electricity interconnector. We are focused on playing our role to address electricity security of supply risks. The need to develop a more diverse fuel mix and contribute to the NI Executive's renewable energy targets is also vital. Ultimately, we also want to make sure that we regulate utility companies to provide consumers with the protection they need and deserve.

Finally, in delivering our strategy, we aim to be a best-practice regulator. This means that we regulate in the best interests of utility consumers in Northern Ireland, while comparing **how** we regulate with best international practice. Achieving best practice also means taking steps to improve how we involve and communicate with our stakeholders. We look forward to working more effectively with our stakeholders as we tackle the challenges ahead.

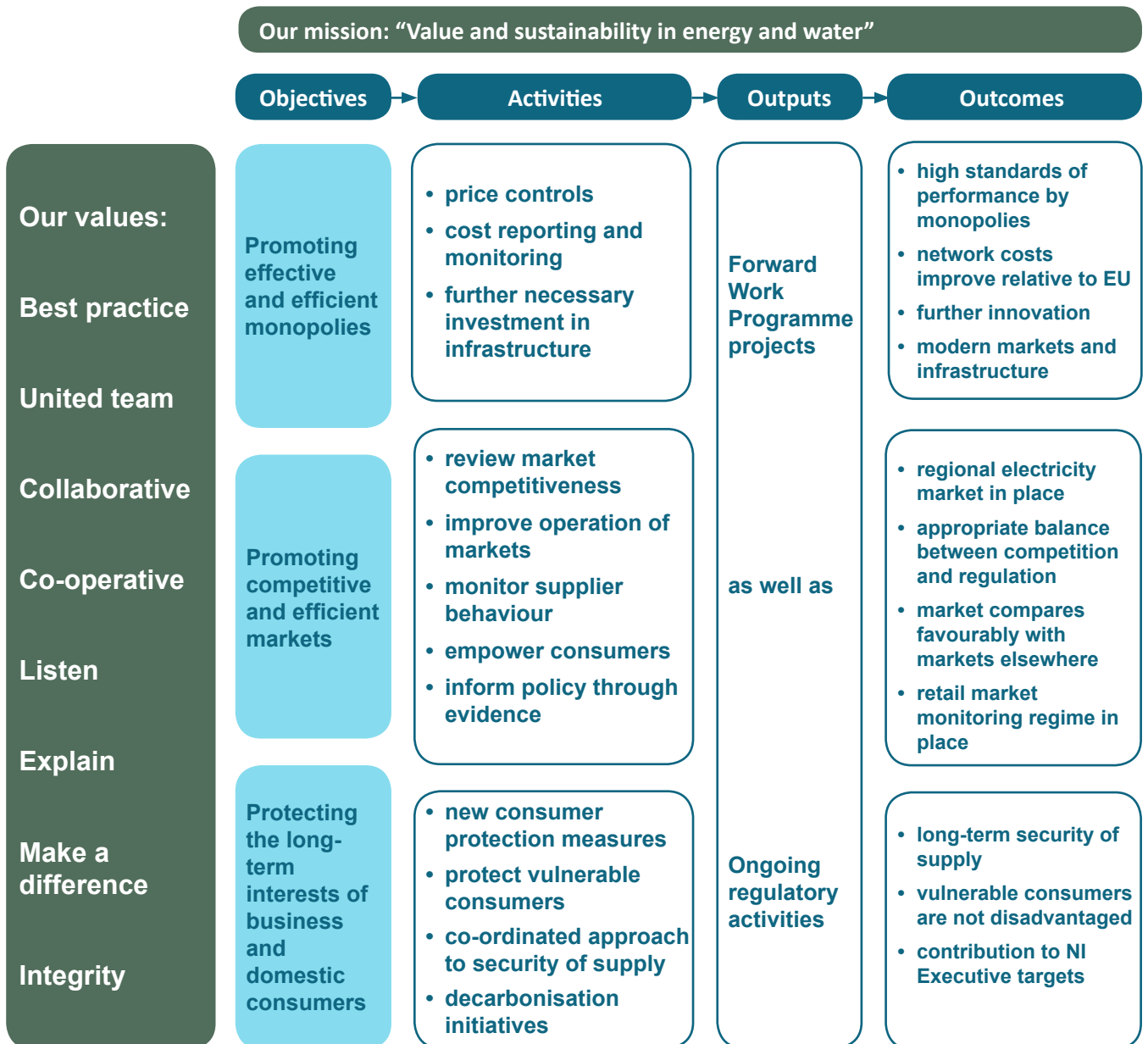


Bill Emery
Chairman



Jenny Pyper
Chief Executive

Our Corporate Strategy: A summary





1

Introduction

We set the strategic direction for the Utility Regulator through our corporate strategy.

Our first strategy covered the period 2009-2014. We have now consulted on a new strategy for 2014-2019.

The strategy provides the basis for developing our annual business plans (called the Forward Work Programme - FWP).

Who we are

We are the independent non-ministerial government department responsible for regulating Northern Ireland's (NI's) electricity, gas, water and sewerage industries.

We are governed by a board whose members are appointed by the Minister for Finance and Personnel.

We are ultimately accountable to the local Assembly and our work contributes to the overall Programme for Government (PfG) in NI.

What we do

Our work is based on the duties we have in law, which include the following:

Energy – electricity and gas

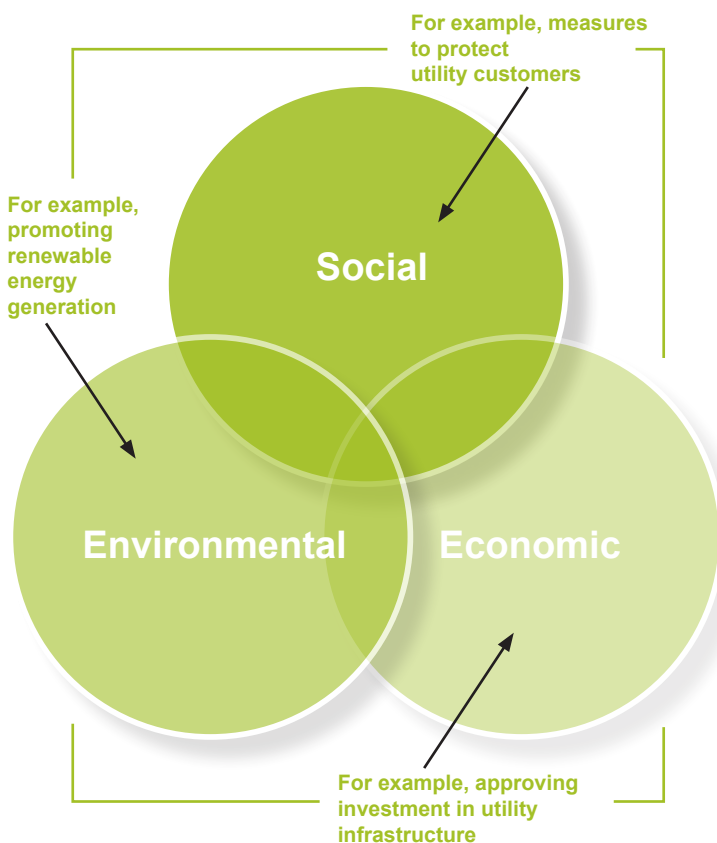
Protecting the interests of electricity consumers with regard to price and quality of service by promoting effective competition where appropriate.

Promoting the development and maintenance of an efficient, economic and co-ordinated gas industry.

Water

Protecting the interests of water and sewerage consumers by promoting an efficient industry delivering high-quality services.

The focus of our work covers three areas of public service: social, environmental and economic (see below). These three areas are connected and depend on each other.



We have a wide range of responsibilities in law, covering regulatory functions and competition powers. Our competition powers are held jointly with the Competition and Markets Authority (CMA).

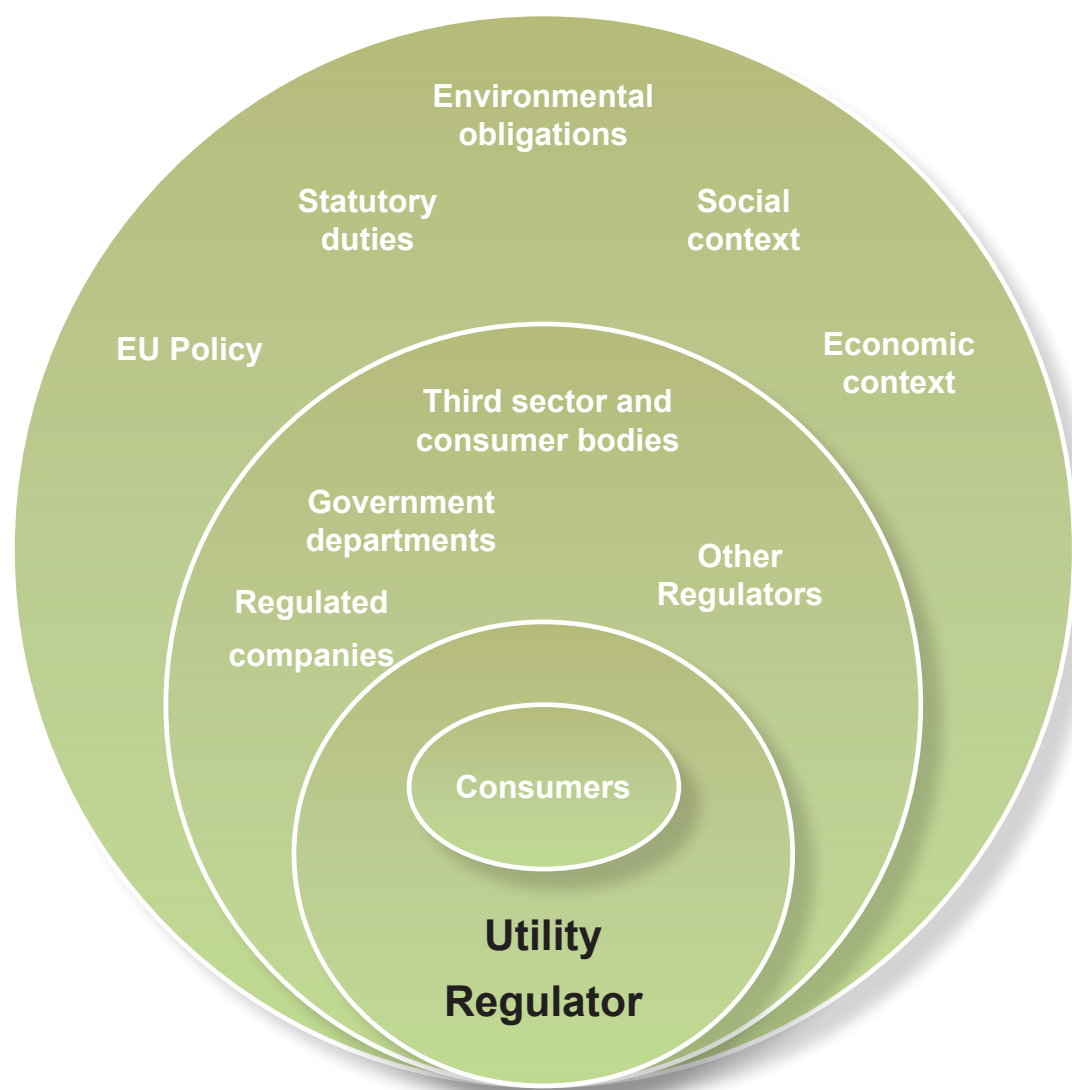
Our work includes the following.

1. **Issuing licences that allow gas, electricity and water companies to operate in Northern Ireland.**
2. **Making sure licensed companies meet relevant legislation and licence obligations.**
3. **Setting the minimum standards of service which regulated companies must provide to consumers in Northern Ireland.**
4. **Making sure that consumers only pay what is necessary for the services they receive now and in the future.**
5. **Challenging companies to make sure they operate ever more efficiently and deliver good value for consumers as well as shareholders.**
6. **Working to provide greater choice and encourage competition in the gas and electricity markets.**
7. **Making sure that regulated companies can finance their activities and innovate effectively.**
8. **Acting as an adjudicator on individual complaints, disputes and appeals.**



Who we work with

We work with a wide range of stakeholders across several areas to help us protect the interests of consumers (see below).



In carrying out our duties in energy we work within a policy framework set by the Department of Enterprise Trade and Investment (DETI). Our statutory duties (the duties we have in law) are the same as the Department's. In water we work within a policy framework set by the Department for Regional Development (DRD).

Given our role as the economic regulator of energy and water companies in Northern Ireland, we also work with other statutory bodies. This includes working with the economic development body, Invest Northern Ireland, to advise - where appropriate - on investment matters.

We also work closely with the statutory body responsible for representing consumers, the Consumer Council for Northern Ireland (CCNI).

Our role also includes regulating the single electricity market (SEM) which was set up in 2007 and covers both Northern Ireland and the Republic of Ireland. We work in partnership with the energy regulator for the Republic of Ireland (the Commission for Energy Regulation – CER).

Our work sits within a broader European Union (EU) and United Kingdom (UK) context and we work closely with other regulators. These include the energy and water regulators for Great Britain (Ofgem, Ofwat and the Water Industry Commission

for Scotland (WICS)) and the EU energy regulatory body – the Agency for the Co-operation of Energy Regulators (ACER).

Following changes to the competition rules across the UK, we will work with the new Competition and Markets Authority. We will also work with other regulators across the UK, through the United Kingdom Competition Network (UKCN), to provide a co-ordinated approach to putting the new competition regime into practice.

We also work with the United Kingdom Regulators Network (UKRN). The UKRN includes representatives from economic regulators and is a forum for promoting efficiency and consistency in the UK system of economic regulation.

The next section sets out the context for our strategy. In section 3 we set out the detail of our strategic priorities for the period 2014-2019. Finally, in an appendix, we provide a glossary of some of the terms used in this document.



2

Strategic Context

In this section we focus on the context for developing our strategy. We identify the context at the time of developing our strategy (see below) and policy developments since 2009 which influence our priorities. An

assessment of our progress during the previous strategy period is also presented. Finally, we identify challenges for the strategy period from 2014.

Programme for Government (PfG)

PfG 2011-15 sets overall context for all public service activity.

NI Executive policy developments

Strategic Energy Framework, **SEF**, published 2010. **40%** electricity consumption from **renewable sources** by 2020. **New Energy Bill** for NI. **DRD** leading **long-term strategy** for water in NI.

Social and economic context in NI

Lower household earnings. Highest rate of **fuel poverty** in UK. **Oil** as the main fuel for heating homes. Electricity bills for **large business** users among the highest in Europe

EU policy developments

EU **third package** (IME3) measures to **protect consumers** and promote competition. **Regional electricity market** by 2016. Energy Efficiency directive target to achieve **energy savings** of 1.5% a year. Established European energy regulator (**ACER**).

Renewable Energy directive provides **priority dispatch** for renewable energy. **Water Framework directive**, complete approach to managing water quality.

UK policy developments

Department of **Business, Innovation and Skills** issued its **Principles of Economic Regulation**, which are: accountability, focus, predictability, coherence and adaptability.

Department of Energy and Climate Change introduced **electricity market reform** (EMR) to deliver security of supply, decarbonisation and affordability reflected in a new **Energy Bill** with provisions for feed-in tariffs with contracts for differences to apply in NI.

Creation of **Competition and Markets Authority** (CMA) to replace OFT and Competition Commission.

What we have achieved since 2009

approved at least £1.3 billion of efficient investment in networks

saved more than £240 million of costs to consumers through price controls

saved £270 million of costs by cancelling power generators' contracts

approved increased investment in renewable energy that increased the proportion of energy generated from renewable sources by 62%

worked with CER to develop the Single Electricity Market, and taken forward the design of a new European regional electricity market

delivered competition in the energy retail markets

approved further extensions to the natural-gas network

put in place a range of EU consumer protection measures

completed major inquiries and provided recommendations on business electricity prices and water supply disruptions



We carried out a mid-term review of our existing strategy in 2010-2011. Following a public consultation on this review, we decided that no change was needed to our strategy themes for the rest of the corporate strategy period. We did however identify several extra projects that were then included in our FWP for 2011-2012.

Challenges from 2014

New challenges are based on a review of what has happened since 2009, the current context and what we know about the future. These challenges include:

- playing a role in reducing the effect of higher energy prices for business and domestic consumers;
 - making sure there is efficient investment in a modern and high-performing utility infrastructure which can be maintained over the long term;
 - supporting utility companies by providing incentives to innovate and promote best practice;
 - supporting the long-term development of our regulated industries and specifically contributing to the achievement of the NI Executive's renewable-energy targets;
 - reviewing the effectiveness of competition in the retail energy markets;
 - promoting effective competition in the SEM and delivering a regional European electricity market by 2016 – called the I-SEM;
 - dealing with concerns about the security of supply in Northern Ireland and, in particular, the critical need to build a second north-south electricity interconnector;
 - improving the way we monitor the outcomes of the retail energy markets for consumers and making sure consumers are properly protected;
 - working to effectively put in place the new competition arrangements;
 - working with DETI to put in place the Energy Bill and the Energy Efficiency directive;
 - supporting a joint approach in water, working with the Department for Regional Development to help keep to the Water Framework directive; and
 - improving outcomes for providing water and sewerage services.
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3

Our Strategy

Protecting consumers

Our strategy recognises the need to strike a balance between protecting the interests of consumers in both the short and long term.

Achieving this balance means that we protect today's consumers, in relation to price and quality of service as well as supporting efficient investment by energy and water companies, which is in the interests of future generations. We will achieve this through having the right incentives in place to encourage ever more efficient, effective and successful enterprises providing the necessary services.

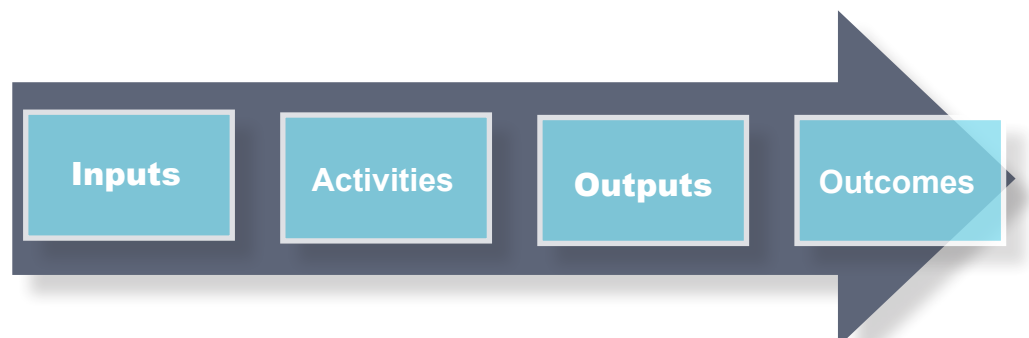
We also have to achieve a balance between utility costs and prices with the need to keep the lights on, as well as supporting renewable energy.

Our approach to developing our strategy

This is our second corporate strategy. We recognise that developing this new strategy is a significant milestone for our organisation.

We have worked with our board and staff and external stakeholders at an early stage in developing the strategy. This included a series of workshops with internal and external stakeholders before we started drafting the strategy. These workshops were an invaluable contribution to our review of the current strategy and further improved our understanding of the context under which we operate. Ultimately, our work with stakeholders helped us to identify the priorities which form the basis of our strategy.

Turning these priorities into a clear strategy involved using a model focused on delivering outcomes.



Our inputs include our staff, our resources and how we communicate. The activities relate to the things we do to deliver outputs. These outputs, which are largely outlined as project deliverables in our FWP, contribute to the outcomes or results that we want to achieve.

Our strategy

Following our review of our current strategy, an assessment of the strategic context and our work with stakeholders, the identity of our new strategic priorities was clear.

Firstly, we will continue to put consumers – both current and future – at the heart of everything we do. There is also a range of issues associated with our regulation of energy and water monopolies, especially prices. Secondly, we identified issues around wholesale and retail market development and competition as clear priorities. The broad issue of sustainability (promoting cleaner forms of energy) was a significant focus – given the wider policy agenda and comments from our work with stakeholders. Finally, we also identified the specific issue of electricity security of supply as a priority.

We considered how we might best reflect these priorities in our strategy and have identified three objectives which form our strategy and the related outcomes. These objectives and outcomes are, in turn, set out

below in more detail. Finally, we also identify key performance indicators which show how we will measure how well we are achieving our strategic outcomes.

Objective 1

Promoting effective and efficient monopolies

Objective 2

Promoting competitive and efficient markets

Objective 3

Protecting the long-term interests of business and domestic consumers

Objective 1:	Promoting effective and efficient monopolies
We will meet this objective by:	<ul style="list-style-type: none"> • using price-control reviews to make sure that regulated utility companies in Northern Ireland are efficient, invest prudently and continuously innovate • making sure that consumers' bills fairly reflect costs by scrutinising and monitoring prices, carrying out cost-reporting exercises and assessing how well utility companies are meeting service standards • extending, developing and improving the resilience of utility networks by approving further investment
We will have achieved our objective when:	<ul style="list-style-type: none"> • monopolies deliver high standards of performance • network costs for energy and water companies in Northern Ireland improve compared with EU companies • best-practice regulation encourages innovation and leads to an efficient investment climate • our regulation supports modern progressive markets and infrastructure which delivers a strategic advantage to Northern Ireland

Key Performance Indicators

1. Network utilities will be able to demonstrate their excellence in asset management, which is measured against other utility companies.
2. Network utility costs and performance measure favourably against the top quarter of appropriate comparable companies.
3. Our regulatory tools have helped make sure that regulated utilities drive further effective innovation, such as smart grids and meters.
4. Regulated companies deliver the outputs required by our price-control decisions, on time and within budget.
5. Network gas extensions have been delivered, leading to over 250,000 connections by 2019.

Objective 2:	Promoting competitive and efficient markets
We will meet this objective by:	<ul style="list-style-type: none"> • reviewing and increasing the competitiveness of both the wholesale and retail energy markets in Northern Ireland • delivering projects and promoting infrastructure to improve the operation of existing markets • monitoring market competitiveness and supplier behaviour • keeping consumers informed and involved with the market • strengthening the evidence base which leads to policy decisions
We will have achieved our objective when:	<ul style="list-style-type: none"> • a regional electricity market is in place and brings about effective and efficient competition • the appropriate balance between competitive markets and a strong regulatory framework is in place • market indicators compare favourably with markets elsewhere • there is a system in place for monitoring information about the retail market, which informs policy and gives consumers more options

Key Performance Indicators

1. The I-SEM is delivered on time and is consistent with the EU target model.
2. The Retail Energy Market Monitoring (REMM) system is in place and reported on each year, increasing consumer protection.
3. The effectiveness of competition in our energy markets has been assessed and we have put in place the associated regulatory and policy frameworks.

Objective 3:	Protecting the long-term interests of business and domestic consumers
We will meet this objective by:	<ul style="list-style-type: none"> • delivering new customer protection measures • protecting vulnerable consumers • addressing concerns about electricity security of supply • making it possible for energy companies to introduce initiatives that promote the de-carbonisation of the energy sector
We will have achieved our objective when:	<ul style="list-style-type: none"> • electricity, gas and water consumers have long-term security of supply • a new customer-protection strategy for domestic consumers is in place and vulnerable consumers are not disadvantaged by utility cost or quality of service • our regulatory decisions have contributed to the achievement of the NI Executive's targets for renewable energy and social and environment guidance for water

Key Performance Indicators

1. More energy will be generated from renewable sources between 2014 and 2019 in line with the NI Executive's targets.
2. The immediate risk to electricity security of supply has been addressed by 2016, and longer-term concerns are dealt with by working with DETI and SONI.
3. We have delivered the Consumer Protection Strategy and have put in place revised energy supplier codes of practice.
4. Customer research shows a high level of satisfaction with customer-protection measures and how consumers are able to make informed decisions.

Delivering our strategy

In all that we do we also have a responsibility to make sure that we work effectively as a regulator. We recognise that stakeholders have provided comments and views about how we regulate and what our regulatory priorities should be. We also received more general feedback on our performance.

In delivering the strategy we will aim to keep to our organisational values which are: best-practice regulation, a united team, be collaborative and co-operative, be professional, listen and explain, make a difference and act with integrity.

As a non-ministerial government department, we keep to relevant policies, processes and governance controls and our corporate team carry out a range of important functions which are related to these. For example, and in support of being a best-practice regulator, we will take steps to improve our regulatory processes and our communications with stakeholders. We also plan to develop a new communications strategy during 2014 to improve the way we work, inform and communicate with stakeholders.

Our staff are vital to delivering the new strategy. They are our best asset. We recognise that supporting the development of the people who work for us is critical for delivering the strategy. We will develop our

people strategy and related processes so that our staff and the organisation are focused on delivery.

More specifically, early in 2014 we started work to review the structure of our organisation. We aim to have a structure that is more closely aligned to delivering our corporate strategy commitments. The new structure will also allow us to work more effectively with our stakeholders in Northern Ireland and further afield. Also, as the UK's only multi-utility economic regulator, we will want to make the most of the benefits of working across different utility sectors.

We intend to report on our progress against our corporate strategy objectives and targets in our annual report which we publish every July.



Appendix 1 Glossary of key terms

CMA	Competition and Markets Authority. The CMA is an independent public body, which carries out investigations into mergers, markets and the regulated industries and enforces consumer and competition law. On 1 April 2014, the Competition Commission joined with the competition and certain consumer functions of the Office of Fair Trading (OFT) to form the new Competition and Markets Authority.
Codes of practice	Codes of practice are documents that provide information on the standards of a range of services that consumers can expect from energy and water consumers.
Cost reporting	A process of collecting information from regulated companies to allow us to assess, monitor and measure costs.
Energy Bill	The Energy Bill relates to DETI's proposal on making new legislation to allow for greater powers for renewable energy and extra regulatory measures relating to natural gas and electricity.
IME3	EU Third Energy Package of directives. The package includes two directives and three regulations aimed at reducing restrictions on gas and electricity markets across Europe. It focuses on developing internal markets but also adds new customer protection and information aspects.
OFT	Office of Fair Trading. The OFT enforced consumer-protection law and competition law, reviewed proposed mergers and carried out market studies. As part of the Government's reforms to the arrangements for competition, consumer-protection and consumer-credit regulation, the Office of Fair Trading (OFT) closed on 31 March 2014, and its work and responsibilities passed to a number of different bodies.

Price controls	Price controls are one of the main regulatory tools used to protect consumers. This involves the regulator scrutinising the business plans of monopoly utility companies and working out the revenue needed to finance its activities while providing incentives to invest in the business.
Priority dispatch	Following the Renewable Energy directive, member states must make sure that when dispatching electricity from generating installations, transmission system operators give priority to generating installations which use renewable-energy sources.
Security of supply	A guarantee of an electricity supply to all consumers.
SEM	Single Electricity Market. The SEM was set up in November 2007. It is the single wholesale market for electricity which operates in both the Republic of Ireland and Northern Ireland. It aims to improve security and diversity of supply, encouraging market efficiencies and economies of scale and promoting greater competition.
Smart meter	There has been much debate over the definition of a smart meter. In broad terms, it is a meter that makes it possible for two-way communication between the electricity, gas or water customer and the supplier. Smart meters can include a number of functions such as allowing the utility company to take a meter reading without visiting the property, providing detailed information about usage, providing tariffs that allow different rates depending on the time of day the electricity is used and so on.
Vulnerable consumers	Vulnerable consumers are electricity consumers of pensionable age who are disabled or chronically (long-term) sick, on low incomes or living in rural areas, and gas consumers who are of pensionable age who are disabled or chronically sick or on low incomes.

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