



The Innovation Centre
Northern Ireland Science Park
Queen's Road
Belfast
BT3 9DT

T 028 9073 7750
F 028 9073 7805
E info@ipower.uk.com
W www.ipower.uk.com

Utility Regulator
Queens House
14 Queen Street
Belfast BT1 6ED

Attention Sarah Friedel

22 March 2011

Dear Sarah

STUoS Consultation Response

iPower welcome the opportunity to respond to the Utility Regulator consultation on the methodology for setting the STUoS tariffs going forward. We would also like to commend SONI for the work carried out in producing the final report and recommendations on the tariff setting methodology.

As part of the SONI consultation on STUoS which was held last summer key High Level Design (HLD) objectives were established as guiding principles. It is important that these objectives are adhered to in establishing the correct methodology which will uphold the core principles of fair and equitable treatment. We believe the SONI proposals broadly satisfy the key objectives and in particular the highest priority objective which was correctly given to cost-reflectivity. It is our view that the existing STUoS tariff signal is artificially biased towards the winter peak time and this was something which was highlighted during that consultation process. It is our understanding from previous discussion with NIE that there is little or no correlation between the transmission network investment costs and winter peak charges. This is something which is at odds with the current tariff setting methodology which sees all network investment costs allocated for recovery from the winter peak timeband.

SONI have identified the 90:10 split for load related and non-load related costs respectively that exists within the current methodology. They have indicated that their analysis suggests the split would be more correctly allocated at 60:40. We would agree that this is a step in the right direction and away from the existing artificially created winter peak – the latter being something which is totally at odds with the highest priority objective of cost-reflectivity. However without being party to the analysis our expectation from the outcome of the SONI report was that the load related component would have been much lower than 60%. The SONI report also identifies the unfair bias that currently exists in the form of a cross-subsidy across tariff users. It is our view that that this bias should indeed be removed through the correct allocation and recovery of TUoS charges.

The methodology proposed by SONI also meets the objective of transparency in removing unnecessary complexity by reducing the number of timebands . Unnecessary complexity is something that was recently identified by Ofgem as something which is not in consumer interests and potentially anti-competitive. The SONI proposal to reduce to 3 timebands is therefore a very welcome move. However we draw attention to one particular statement on page 15 of the SONI report which states “these proposed time-bands will ensure that the STUoS tariffs are cost reflective”. We would point out that timebanding does not in itself ensure cost-reflectivity and would highlight the fact that the existing STUoS tariff is timebanded whilst being highly non cost-reflective.

We would agree with the underlying philosophy proposed by SONI of breaking costs down into the 2 main components of load related and non-load related. We believe this is a fundamental characteristic of all such tariffs and once again, whilst in itself does not guarantee cost reflectivity, it does form a sound basis on which a fair and equitable tariff can be formulated.

We believe the proposed methodology promotes stability and will facilitate informed investment decisions around selection of appropriate plant and equipment having regard to technology and energy efficiency. Failure to ensure cost reflectivity can result in year-on-year instability associated with under and over recovery from previous years within the STUoS tariff. This instability can negatively impact equipment selection and pay-back analysis.

We also welcome the removal of charging by voltage levels as this further simplifies the tariff, improves understanding and reduces identified differentiation between customers connected at different voltages.

In conclusion we broadly welcome the SONI report and its recommendations and we believe that it has addressed the key areas necessary for the production of a new methodology for setting the STUoS tariff which is in keeping with the HLD objectives established in the previous consultation process. The methodology corrects many of the flaws that exist in the current design which were at odds with the HLD objectives for a new methodology and appears to be a major step in the right direction in addressing other flaws such as the artificially high winter peak signal.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Peter McPolin', with a stylized, cursive script.

Peter McPolin

Customer Relations Manager