Consultation on measures for the purposes of the EU Third Internal Energy Package

20 September 2013
About the Utility Regulator

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

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

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

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

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Abstract

The purpose of this consultation paper is to seek views and comments on further licence modifications for the purposes of the Third Energy Package including, in particular, modifications required in relation to the certification of electricity transmission system operators.

Other “non certification” related modifications to electricity and gas licences are also referenced and a number of these further clarify the requirements of existing provisions in light of feedback received from licence holders.

Audience

This document is most likely to be of interest to regulated companies in the energy industry, government and other statutory bodies. The Utility Regulator welcomes industry and other stakeholder views and comments on all the proposals set out in this consultation paper.

Consumer impact

Licence modifications for the purposes of the Third Energy Package may result in additional costs for consumers, however we do not expect these to be material. The corresponding benefit of the required licence modifications is clarity and transparency.
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Chapter 1: Introduction

The Third Energy Package

1.1 On 15 April 2011 the Department of Enterprise Trade and Investment (the “Department”) made The Gas and Electricity (Internal Markets) Regulations 2011, (the “Internal Markets Regulations”). Among other things, the Internal Markets Regulations give the Utility Regulator (the “UR” or the “Authority”) the vires to give effect to the provisions of the Third Energy Package in electricity and gas licences (see paragraph 1.3 for full details on the Third Energy Package). In September 2012 the UR issued a decision paper on the third energy package retail and consumer related licence modifications⁠¹ and on 30 April 2013 the UR issued a decision paper on additional technical modifications which were required to be notified to the Commission.

1.2 The purpose of this paper is to seek views and comments on further licence modifications for the purposes of the Third Energy Package including in particular modifications required in relation to the certification of electricity transmission system operators. A number of other “non certification” related modifications for electricity and gas are proposed because they have come to light through experience of the package and in some instances because licence holders have requested further clarity in relation to existing provisions.

1.3 The Third Energy Package comprises the following:

I. Directive 2009/72/EC concerning common rules for the internal market in electricity. This replaces and repeals

¹ [http://www.uregni.gov.uk/publications/ime3_final_decisions_september_2012/]


III. Regulation (EC) 713/2009 establishing an Agency for the Cooperation of Energy Regulators. This is a brand new Regulation in its entirety and has no predecessor to compare it against.

IV. Regulation (EC) 714/2009 on conditions for access to the network for cross border exchanges in electricity. This repeals the Regulation of the same title and subject matter, Regulation 1228/2003.

V. Regulation (EC) 715/2009 on conditions for access to the natural gas transmission networks. This repeals the Regulation of the same title and subject matter, Regulation 1775/2005.

1.4 The key elements of the Third Energy Package include enhanced consumer protection measures, more stringent requirements for unbundling network operations from other activities, ensuring fairer competition within the EU, increased powers and independence for national regulators, greater cooperation between Member States and the creation of a new European energy agency.

Scope and extent of this consultation

1.5 This consultation deals with modifications for the purposes of the Third Energy Package, including those relating to:
• Other modifications required to clarify existing provisions or arrangements or to improve consistency, correct drafting errors or update references.

All modifications required for the unbundling provisions in relation to gas transmission licences were consulted upon on 2 May 2013 and decisions where published on 22 August 2013.

Links to the Commission’s decisions and opinions in relation to the above can be found in Annex 1 of this paper along with links to the UR’s decision papers in relation to gas unbundling.

1.6 Where a modification is being proposed to a condition for the purposes of the Directive in order to add clarity and consistency in relation to the arrangements in respect of Directive, the UR is taking the opportunity to make any other drafting changes that may be required in that condition to update out-of-date legislative references, correct minor typographical errors and make other incidental changes in order to correct inconsistent or incorrect drafting or numbering of paragraphs/sub-paragraphs.

1.7 Any undertaking currently engaged in supply, distribution, transmission or transmission system operation in relation to electricity or gas, or any undertaking considering applying for authorisation to engage in any of these activities should carefully consider the proposals in this consultation.
In addition any other organisation or person with an interest in energy related matters should consider the proposals in this consultation.

Section 75 of the Northern Ireland Act 1998

1.8 As a public authority, the UR has a number of obligations arising from Section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:

(i) persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;

(ii) men and women generally;

(iii) persons with disability and persons without; and

(iv) persons with dependants and persons without.

1.9 The UR must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.

1.10 In the development of its policies the UR also has a statutory duty to have due regard to the needs of vulnerable customers i.e. individuals who are disabled or chronically sick, individuals of pensionable age, individuals with low incomes and individuals residing in rural areas. Some of the above equality categories will therefore overlap with these vulnerable groupings.

1.11 In order to assist with equality screening of the proposals contained within this consultation paper, the UR requests that respondents provide any information or evidence in relation to the needs, experiences, issues and priorities for different groups which they feel is relevant to the implementation of any of the proposals. Furthermore, the UR welcomes any comments which respondents might have in relation to the overall equality impact of the proposals.
How to Respond

1.12 The UR welcomes industry and other stakeholder views and comments on all the proposals set out in this consultation paper.

1.13 The consultation period will close on 15 November 2013

1.14 Responses to this consultation should be forwarded to reach the UR on or before 5pm on 15 November 2013 to:

Briege Tyrie
The Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED
Email: briege.tyrie@uregni.gov.uk

1.15 Your response to this consultation may be made public by the UR. If you do not wish your response or name made public, please state this clearly by marking the response as confidential. Any confidentiality disclaimer that is automatically produced by an organisation’s IT system or is included as a general statement in your fax or coversheet will be taken to apply only to information in your response for which confidentiality has been specifically requested.

1.16 Information provided in response to this consultation, including personal information may be subject to publication or disclosure in accordance with the access to information regimes; these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA). If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory code of practice
with which public authorities must comply and which deals, amongst other things with obligations of confidence.

1.17 In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Authority.

This document is available in accessible formats. Please contact Briege Tyrie on 02890 316326 or briege.tyrie@uregni.gov.uk to request this.
Chapter 2: Changes to be included in different categories of electricity and gas licence

Licence Fees


Policy Background

2.1 Article 35 (Electricity Directive) and Article 39 (Gas Directive) set out certain requirements with regard to the designation and independence of national regulatory authorities. Article 3A of the Energy Order provides that the Authority is designated as the national regulatory authority for Northern Ireland in accordance with Article 35(3) of the Electricity Directive and Article 39(3) of the Gas Directive.

2.2 Among other things, the Directives provide that a national regulatory authority should have adequate financial resources to undertake its functions. The Authority’s functions are those that are conferred upon it by legislation. The Authority cannot do anything which it does not have a power to do – such power being set out in legislation.

2.3 The costs incurred by the Authority in undertaking its functions are ultimately borne by licence holders. All licences (gas and electricity) contain a condition requiring the licensee to pay, on an annual basis, sums of money (licence fees) which, among other things, include the costs of the Authority.

2.4 The relevant condition in the gas licences provides that one component of the fee, which is calculated in accordance with principles determined by the Authority and notified to the licensee, is the costs of the Authority. The
principles confirm that the costs of the Authority are the regulatory gas costs.

2.5 The relevant condition in electricity licences is similar in that it also refers to the recovery of, among other costs, the costs of the Authority in accordance with a method previously disclosed in writing to the licensee. However, in electricity the recoverable costs are limited to those which relate to the exercise of its functions set out in legislation that is specified in the licence condition. Limiting the Authority’s costs to the exercise of the functions in the specified legislation in this way can have an unintended and unnecessary consequence as the Authority has (electricity related) functions under other legislation which is not specified (including for example functions of modifying licences for the purposes of implementing Directives).

2.6 The current drafting of the licence fee condition in each licence may be slightly different but in essence it includes a paragraph which is along the following lines -

*The licensee shall pay to the Authority a fee which is the aggregate of the following amounts*

(a) *an amount which is a proportion, as determined by the Authority, of the amount estimated by the Authority, according to a method which has previously been disclosed in writing to the Licensee, as likely to be its costs during the year in question in the exercise of its functions under the Order, the Energy Order, the SEM Order and the Directive Regulations in relation to the holders of licences granted under Article 10(1) of the Order;*

(b) ……

(c).....

2.7 It is therefore considered appropriate to modify the licence fee condition in each electricity licence so that it is not limited only to costs incurred in
exercising functions set out in the specified legislation. This modification will also ensure that on this particular aspect the electricity licence condition is consistent with the equivalent provision in the gas licence condition.

**Proposed Modifications**

2.8 Where the licence fee condition in any electricity generation, supply, transmission, distribution, or market operation licence contains a paragraph along the lines noted above (i.e. which refers to functions of the Authority under specified legislation), the UR proposes to amend that licence condition so that the relevant paragraph does not specify any particular legislation.

The drafting of the relevant paragraph is slightly different in each type of licence. The drafting below is taken from Power NI’s electricity supply licence and highlights the changes that are being proposed and which will be similarly reflected in other licences –

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“In respect of each year…. The licensee shall pay to the Authority a fee which is the aggregate of the following amounts

(a) an amount which is a proportion, as determined by the Authority, of the amount estimated by the Authority, according to a method which has previously been disclosed in writing to the Licensee, as likely to be its costs during the year in question in relation to the functions relating to electricity assigned or transferred to it by or under any legislation;

(b) ..... 

(c) ....
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**Reasons and Effects, Costs and Benefits**

2.9 The reason for the modification is to ensure that the Authority can finance its duties under the Directive, as well as under any new legislation which
might be introduced. The Authority does not expect to increase licence fees as a result of the change. Therefore there should be no additional cost burden on licence holders. Benefits include clarity as to how the Authority shall finance its activities.

### Provision of Information to the Authority

#### Policy Background

2.10 All gas and electricity licences include a condition relating to provision of information to the Authority. At present paragraph 1 of the condition refers to functions given or transferred to the Authority by or under the legislation that is specified.

2.11 However, the Authority has functions afforded to it under enactments which are not presently referred to in this condition, including for example statutory rules such as the Internal Markets Regulations and EU law such as EC Regulations and Directives.

2.12 It is therefore inappropriate for the condition to be limited only to the functions of the Authority in the listed legislation. Given the functions afforded to the UR under IME3 it is appropriate for the condition to be amended.

#### Proposed Modifications

2.13 It is therefore proposed that the relevant paragraph of the condition in all electricity and gas licences will delete the references to the specified legislation.

2.14 To illustrate the proposed change, we set out below the modified paragraph as it will appear in Power NI’s electricity supply licence –
Reasons and Effects, Costs and Benefits

2.15 The proposed modifications are essentially to ensure that the UR can request information for the purposes of any of its functions including those conferred by the IME3 provisions. The UR will seek only that information which is necessary for the purpose of performing its functions under legislation, collected in such a manner as to minimise the potential burden of information provision. The UR considers that at this time there are no additional costs associated with this licence condition. Benefits include full and transparent transposition of the Directive.
Chapter 3: Electricity Transmission Licences

Introduction

3.1 The Electricity Directive contains a number of wide ranging provisions relating to electricity transmission and the functions of electricity Transmission System Operators (TSOs). In particular they relate to the certification of TSO’s as fully independent from any business which engages in electricity generation or supply and in relation to ensuring that TSO’s cooperate with each other and are treated consistently. The Directive sets out a number of different models by which member states can certify that a TSO is fully independent. These include:

- Independent Transmission Operator (ITO)
- Independent System Operator (ISO)
- Full Ownership Unbundling (FOU)
- Arrangements are in place which guarantee more effective independence than the above. This is permitted by Article 9 (9) of the Electricity Directive and will be hereby referred to as 9(9).

3.2 For ITO, ISO, and FOU arrangements the Member State must decide whether the arrangements in place meet the requirements of the Directive. Member States must inform the Commission of the arrangements and take into consideration the Commission’s opinion.

3.3 Where 9(9) arrangements are proposed the Commission must verify that the arrangements guarantee more effective independence than the ITO model.

3.4 Article 10 of the Internal Markets Regulations transpose the Directive’s
requirements on certification and do so by amending the Electricity (Northern Ireland) Order 1992 with new Articles 10A-11L. In combination, Articles 10A to 11L of the Order require TSO’s to be certified by the UR and set out the grounds for certification – which grounds are reflective of the unbundling models set out in the Directive. It should be noted that in transposing the Directive into domestic legislation the decision was made (as is open to member states) that the ITO model would not be available for NI transmission system operators. It should also be noted that the Internal Markets Regulations have been amended\(^2\) to enable both SONI and NIE to be certified pursuant to an application for certification made by NIE.

3.5 The island of Ireland operates a Single Electricity Market (SEM). Where matters have, or are likely to have, an impact on SEM, the UR’s SEM Committee (which comprises the same representatives from the UR, CER\(^3\) and an independent member) acts as decision making body for the UR. As TSO certification is likely to impact the SEM Market, the UR’s SEM Committee has responsibility for certification related matters.

3.6 Links to the Commission’s decision and opinion papers are included in Annex 1 of this paper, as are links to the SEM Committee’s preliminary decisions.

3A NIE Transmission and SONI

Policy Background

3.7 Currently the arrangements are that SONI and NIE share the functions which now come under the heading of transmission system operation. SONI is responsible for the day to day operation of the transmission system. NIE has an important role regarding connections, planning and carrying out the actual work, but it does not operate the system or have the

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\(^2\) By the Gas and Electricity (Internal Markets) (Amendment) Regulations (Northern Ireland) 2013

\(^3\) Commission of Energy Regulation
interaction with system users. NIE plans the system and is responsible for financing and carrying out the necessary developments.

3.8 The ultimate controller of NIE is ESB, which has interests in generation and supply within the ESB group. NIE has applied for certification under Article 9(9) of the Directive. This applies where the transmission system belongs to a vertically integrated undertaking and there are arrangements in place which guarantee more effective independence than the independent transmission operator model. The UR’s SEM Committee gave its preliminary decision for qualified approval of the NIE Application in December 2012. On 15 February 2013 the UR notified the proposed arrangements to the Commission which has the ultimate responsibility of verifying that the proposed arrangements guarantee more effective independence than the ITO arrangements. On 12 April 2013 the Commission published its decision which stated that:

“The arrangements in place in relation to the vertical integration and operation of the transmission systems belonging to NIE existing on 3 September 2009, as set out in the Utility Regulator’s preliminary decision, meet the requirements of Article 9(9) of Directive 2009/72/EC and could clearly guarantee more effective independence of the transmission system operators than the provisions of Chapter V of Directive 2009/72/EC. SONI shall be certified as the transmission system operator for Northern Ireland”

3.9 In order to allow the UR to certify NIE and SONI and to give effect to the Commission’s decision, modifications are required to the NIE and SONI licences to ensure that the qualification measures set out in the preliminary decision for qualified approval are taken. These include the following:

- The transfer of investment planning responsibilities from NIE to SONI.
• All of the ring-fencing and regulatory arrangements that presently apply to NIE to apply equally to NIE Powerteam Ltd.
• Prohibiting the provision of certain corporate services to NIE by ESB.
• For all directors and senior executives of NIE to have their contract of employment with NIE.
• Extending the existing requirement which provides for the NIE holding company not to exercise its corporate governance role in such a way as to prevent or distort competition on the island of Ireland such that it applies in respect of the internal market.
• There should be consistency of treatment between transmission system operators.

Proposed Modifications

3.10 The licence modifications (which once made will enable the UR to certify the parties as meeting the certification grounds in Article 10F(A) of the Electricity Order and thereby reflect the Commission’s decision) will need to be made throughout NIE’s and SONI’s transmission licences. By default, changes are also required to NIE’s distribution licence. The Utility Regulator considers that the clearest way of illustrating the changes and their effect is to show a track change version of the licence. These are included as Annex 2A, 2B and Annex 3 of this paper. In addition to licence modifications, there is a requirement for the Transmission Interface Agreement (TIA) between NIE (Transmission Owner) and SONI (Transmission System Operator) to be modified to reflect the significant changes to working arrangements as a result of certification. The UR will consult on proposed TIA modifications following submissions by NIE and SONI. A timetable for this is provided in Annex 5.
Reasons and Effects, Costs and Benefits

3.11 The reason for the proposed modifications is to enable the UR to certify NIE and SONI as a TSO and thereby reflect the Commission’s decision and to ensure that the relevant licensees meet and continue to meet the requirements for TSO certification on the relevant grounds. Currently NIE and SONI share the functions of transmission system operation in Northern Ireland; the planning, development and maintenance functions of the transmission system are carried out by NIE and operation is carried out by SONI. The effect of the licence modifications is that the planning function which currently resides with NIE will transfer to SONI. NIE will continue to be responsible for executing the investment plan.

3.12 The UR considers that that there are no additional costs necessary to be included in the current NIE price control (RP4) associated with these modifications. This is because in most instances the action required aligns with good practice or the change in practice will not incur additional cost. However an investigation is currently underway by the Competition Commission into the next NIE price control (RP5). Consideration may be given to a reduction in staff costs and associated overheads for NIE as a result of TSO certification. Any cost implications for SONI will be assessed by the Utility Regulator as part of the price control review process. SONI’s next price control is due to be implemented on 1 October 2015. In the interim there is a procedure whereby SONI may request additional costs. Where such costs are associated with licence modifications, such a request may be submitted to the Utility Regulator for assessment. The benefits include compliance with the Commission’s decision and full and transparent independence for the TSO.
3B Moyle Interconnector Limited (MIL)

3.13 MIL is part of the Mutual Energy group of companies. It owns the Moyle Interconnector which links the electricity grids of Northern Ireland and Scotland. MIL applied for certification on the grounds of full ownership unbundling (FOU), i.e. that the transmission system belongs to an undertaking that is independent from any supply and generation interests.

3.14 The SEM Committee’s preliminary decision was for qualified approval of the MIL application. As MIL is responsible for the interconnector between Scotland and Northern Ireland the decision was notified to the Commission by the UR at the same time as Ofgem notified of its preliminary decision with regard to the MIL’s operations in GB.

3.15 The Commission’s opinion of July 13 agreed with UR and Ofgem’s notified decisions on qualified approval, including the proposal to improve certain non-discrimination obligations in the MIL licence. MIL retains responsibility for financing the interconnector, planning the expansion of the interconnector, ensuring the reliability of the interconnector and for maintenance (with the timing of maintenance decided by SONI – as it undertakes operation activities under contractual arrangements regulated under MIL’s licence).

3.16 The Commission’s opinion also invites UR to verify that MIL has sufficient resources to oversee the actions of SONI (and Eirgrid) in operating the interconnector as part of the wider system on the island of Ireland in addition to having the resources available to manage financing, maintenance and development of interconnection between NI and GB.
Proposed Modification

3.17 The licence modifications required for the purposes of TSO certification (and to reflect where required the Commission’s opinion) will be included throughout the MIL licence. The Utility Regulator considers that the clearest way of illustrating the changes and their effect is to show a track change version of the licence. This is included as Annex 4 this paper.

Reasons and Effects Costs and Benefits

3.18 The reason for the proposed modifications is to ensure that MIL meets and continues to meet the grounds for certification. Ongoing compliance and greater transparency are the main benefits. There may be some costs associated with the provision of audit opinion, however these will be limited.
Chapter 4: Supply Licences (Gas and Electricity)

Introduction

4.1 On 13 September 2012, all electricity supply licences and gas supply licences were modified in order to implement the requirements of the respective Directives. Further detail on the modifications made and the reasons for them can be found at:

4.2 The supply licences are consequently up to date and compliant with the requirements of the Directives. However we are taking this opportunity to propose two minor modifications for the purpose of clarification.

4.3 In addition, we are also proposing to make two other minor changes (primarily but not solely to the modifications made in September 2012) in order to correct inconsistent or incorrect drafting or numbering of paragraphs/sub-paragraphs.

4.4 Further detail on the proposed changes is set out below.

Consumer Contracts - Rights of Cancellation

Policy Background

4.5 IME3 has delivered a high level of protection to customers. One of the customer protection measures found in all electricity and gas supply licences (Condition 27 and Condition 2.18 respectively) is the requirement
that the terms and conditions of supply contracts with domestic customers must, among other things, provide a ten day period within which the customer can withdraw from or cancel the contract (referred to as the “cooling off” period).

4.6 This means that after entering into a contract with a supplier, a customer can change their mind and cancel that contract within the ten day period. In practical terms it also means that suppliers cannot start to supply electricity/gas under the contract until the cooling off period has expired (as otherwise there would be a need to unwind arrangements and there are inherent difficulties with such an approach).

4.7 In response to supplier concerns the UR has considered whether the domestic customer should, if it wished to do so, be able (but only explicitly and verifiably) to opt out of his/her right to the cooling off period. Any such opt out would enable the supplier to start supply sooner and thereby enable the domestic customer to take advantage of the reason for switching sooner. The UR has reviewed its policy decision with respect to statutory consumer law which allows customers the option to waive the cooling off period in certain circumstances.

4.8 Having weighed up the potential advantages and disadvantages of the cancellation period requirements, the UR is of the view that the concerns which led to the ten-day cooling off period being mandatory continue to be valid. Therefore, it is right for energy supply contracts in Northern Ireland to have more enhanced requirements than statutory consumer law, for the purpose of consumer protection. As such, these contracts must include a mandatory cooling off period which cannot be opted out of. The UR considers that the energy supply market in Northern Ireland is, at present, different to markets for other goods or services. It is also concerned that
customers would not necessarily understand the full impact of opting out of a cooling off period.

4.9 The UR therefore continues to be of the view that all domestic supply contracts need to provide for a ten day cooling off period. However, it recognises that the drafting of the requirement could be strengthened to make it clear that the suppliers cannot ask customers to waive the cooling off period. Therefore the UR proposes to modify the drafting of the condition as explained below.

Proposed Modifications

4.10 For clarification only the UR proposes to amend Condition 27 and Condition 2.18 of electricity and gas licences (respectively) to include a new paragraph 8 (with subsequent paragraphs renumbered accordingly) as follows (substituting gas for electricity and consumer for customer as appropriate in the gas supply licence version) -

8. The Licensee shall not start to supply electricity under a Contract with a Domestic Customer until the cancellation period referred to in paragraph 7(e) has expired.

Reasons and Effects, Costs and Benefits

4.10 The proposed modification is appropriate to clarify the intended policy that suppliers must give customers the full ten day cooling off period and cannot inform customers that an opt out of the cooling off period is possible.

4.11 There are no costs associated with this modification. Benefits include clarity on supplier obligations.
Non-Disconnection of Vulnerable Customers

Policy Background

4.12 We are also taking the opportunity to amend some of the drafting in the condition relating to ‘Code of Practice on Provision of Services for persons who are of Pensionable Age or Disabled or Chronically Sick’ (Condition 31; Electricity, Condition 2.11; Gas).

4.13 Paragraph 4 of the condition deals with non-disconnection of vulnerable customers during the winter months. At present the drafting of this paragraph inadvertently implies that the code of practice need only deal with circumstances where the vulnerable customer makes a request for such non-disconnection. Clearly this is not the case.

Proposed Modifications

4.14 The proposal is therefore for paragraph 4 of the condition to read as follows (substituting gas for electricity and consumer for customer as appropriate for the gas supply licence) –

4. The Code of Practice shall include arrangements by which the Licensee will:

   (a) on request and free of charge:

      (i) provide services which will enable a Domestic Customer who is blind or partially sighted to receive, by means that are readily accessible to such Customers, information about (or set out in) any bill or statement relating to the supply of electricity or any other services provided to
the Customer by the Licensee;

(ii) make available facilities which will assist any Domestic Customer who is blind or partially sighted or deaf or hearing impaired and in possession of appropriate equipment, to enquire or complain about any bill or statement relating to the supply of electricity to him or any service provided by the Licensee;

(b) not cut off, in any month from October to March, the supply of electricity to the Domestic Premises in respect of which the Domestic Customer has not paid Charges for the Supply of Electricity if the Domestic Customer at the Domestic Premises:

(i) is of pensionable age, disabled or chronically sick; and

(ii) lives alone or only with other persons who are of pensionable age, disabled, chronically sick or under the age of 18;

(c) take all reasonable steps to avoid, in any month from October to March, cutting off the supply of electricity to a Domestic Premises in respect of which the Domestic Customer has not paid the Charges for the Supply of Electricity to the Domestic Premises where the occupants of the Domestic Premises include a person who is of pensionable age, disabled or chronically sick and
(d) take all reasonable steps to ascertain, before it exercises any right it may have to cut off the supply of electricity to Domestic Premises, whether the Domestic Premises is one that falls within the scope of paragraph (b) or (c) above.

Reasons and Effects, Costs and Benefits

4.15 The proposed modifications are essentially to correct and clarify the drafting to reflect the policy intention.

4.16 There are no costs associated with this modification. Benefits include increased clarity and correct reflection of the policy.

References to Market Registration Service (Electricity Supply Licences Only)

Policy Background

4.17 At present Conditions 27 and 43 of electricity supply licences (except for Power NI’s licence which has different condition numbering) make a reference to and define what is meant by Market Registration Service. It is defined as the service described in NIE Limited’s transmission licence.

4.18 Given that the definition of Market Registration Service is now in NIE Limited’s ‘separate’ distribution licence, and given that other electricity distribution licences will also include a description of Market Registration Service (electricity distribution now a licensable activity - see amendments
made to the Electricity Order by the Internal Markets Regulations), it is necessary to amend the definition.

4.19 Accordingly it is proposed that the definition is amended such that it refers to the service which is described in the licence held by the owner/operator of the distribution system to which the premises are connected.

Proposed Modifications

4.20 The new definition will read as follows –

| Market Registration Service | means the service described in the electricity distribution licence held by the person that is the owner and/or operator of the Distribution System to which the premises are connected and through which the Customer is supplied with electricity; |

Reasons and Effects, Costs and Benefits

4.21 The proposed modifications are essentially required to reflect distribution being a licensable activity and thereby potentially being carried out under authorisation of a licence by entities other than NIE.

4.22 There are no costs associated with this modification. Benefits include increased clarity and correct updated references.
Supply Marketing Activities

Policy Background

4.23 In reviewing the existing licences it has come to the UR’s attention that the numbering in paragraph 3 of the condition relating to Marketing (condition 40 in electricity supply licences and condition 2.21 in gas supply licences) is not correct. The UR proposes therefore to rectify this inconsistency.

Proposed Modifications

4.24 The proposed modification is a minor one where the paragraph which is presently numbered as 3(c)(iii) shall be renumbered as paragraph 3(d).

Reasons and Effects, Costs and Benefits

4.25 The proposed modifications are essentially required to correct drafting and will therefore clarify the original intention and requirement.

4.26 There are no costs associated with this modification. Benefits include increased clarity and correct updated references.
Introduction

5.1 This section of the consultation paper outlines modifications proposed in relation to the gas conveyance licences held respectively by the two gas distribution companies in Northern Ireland, namely Phoenix Natural Gas Limited and firmus energy (Distribution) Limited.

5.2 The modifications proposed are for the purpose of the Directive and will ensure clarity and consistency.

5.3 The modifications being proposed are necessary to address the preparation, revision and compliance with Codes of Practice, the terms and conditions for domestic consumers and a minor correction to one licence.

Codes of Practice for Gas Distribution Companies

Policy Background

5.4 On 13 September 2012, new licence conditions were implemented for PNGL and firmus relating to the provision of codes of practice. These licence conditions are Distribution Marketing Code (condition 2.7A), Complaints Handling Procedure (condition 2.8A) and Consumer Information Code (condition 2.9A).

5.5 Each of these licence conditions set out the requirements for the relevant code of practice, including provisions for reviewing and modifying the codes of practice.
5.6 At the same time, a number of new or amended licence conditions were introduced for gas supply companies requiring codes of practice to be put in place (conditions 2.8 - 2.12 of gas supply licences). Each of these conditions are subject to the new condition Preparation, Revision Of and Compliance with Codes of Practice (condition 2.13).

5.7 The new condition Preparation, Revision Of and Compliance with Codes of Practice (condition 2.13) in the gas supply licences sets out the requirements in relation the following areas for the codes of practice:

- consulting with the consumer council;
- review of the codes of practice;
- modification of the licence conditions relating to codes of practice;
- publication of the codes of practice;
- compliance with the codes of practice;
- monitoring the implementation and operation of the codes of practice;
- directions to licensee relieving the licence obligations.

5.8 The current codes of practice conditions (conditions 2.7A, 2.8A and 2.9A) in the gas distribution licences include the same requirements as provided for in condition 2.13 of the gas supply licences, however we have identified some inconsistencies between gas supply and gas distribution licences.

5.9 In the interests of consistency we are now proposing modifications to conditions 2.7A, 2.8A and 2.9A of the gas distribution licences in order to align the requirements in relation to the codes of practice conditions in the gas distribution licences with the codes of practice conditions in the gas supply licences.
Proposed Modifications

5.10 The proposed modifications are to delete the current paragraphs 5 to 12 from condition 2.7A (Distribution Marketing Code), paragraphs 4 to 11 from condition 2.8A (Complaints Handling Procedure) and paragraphs 6 to 13 from 2.9A (Consumer Information Code) of the PNGL and firmus licences.

5.11 A new paragraph will be added at the end of condition 2.7A, 2.8A and 2.9A which will read:

“This Condition is subject to Condition 2.9B: Preparation, Revision Of and Compliance with Codes of Practice”

5.12 We also propose to include a new licence condition into the PNGL and firmus licences as condition 2.9B, entitled “Preparation, Revision Of and Compliance with Codes of Practice”. The new condition is proposed to read as follows:

“Condition 2.9B: Preparation, Revision Of and Compliance with Codes of Practice

2.9B.1 This Condition applies to any Code of Practice (Code) which the Licensee is, pursuant to Conditions 2.7A, 2.8A and 2.9A of this Licence, required to prepare, submit to and have approved by the Authority.

2.9B.2 The Licensee shall, before submitting any Code to the Authority for its approval, consult the General Consumer Council and shall consider any representations made by it about the Code or the manner in which it is likely to be operated."
The Licensee shall:

(a) whenever requested to do so by the Authority; and

(b) where the request relates to the Distribution Marketing Code, in conjunction with all other distribution system operators,

review the relevant Code to which the request relates and the manner in which it has been operated, with a view to determining whether any modification should be made to that Code or to the manner of its operation.

In carrying out any review under paragraph 2.9B.3 the Licensee shall consult the General Consumer Council and shall consider any representations made by it about the Code or the manner in which it is likely to be or has been operated.

The Authority, following consultation with the Licensee, the General Consumer Council, any other person who in the opinion of the Authority is likely to be interested or affected, may

(a) direct the Licensee to make such modifications to any Code as the Authority considers are necessary or expedient to meet the relevant objectives of that Code;

(b) from time to time make such modifications to Conditions 2.7A, 2.8A and 2.9A, as the Authority considers are necessary or expedient.

Where the Authority modifies a Condition in accordance with paragraph 2.9B.5(b):
it shall:

(i) send a copy of the modification to the Licensee and the Department;

(ii) publish a copy of the modification in such manner as it considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by the making of the modification; and

(b) the Licensee shall revise the Code to which the modification relates in such manner and to such extent as is required to ensure that the Code reflects and complies with the modified Condition.

2.9B.7 Where the Licensee revises a Code:

(a) in accordance with paragraph 2.9B.6(b) above;

(b) following a review undertaken in accordance with paragraphs 2.9B.3 and 2.9B.4; or

(c) following a direction from the Authority under paragraph 2.9B.5(a),

it shall submit the revised Code to, and have it approved by, the Authority.

2.9B.8 The Licensee shall as:

(a) soon as practicable following the Authority’s approval of a Code (including following a revision):

(i) send a copy of the Code to the Authority and the
General Consumer Council; and

(ii) draw the attention of its consumers to the Code and of how they may inspect or obtain a copy of it;

(b) publish on and make readily accessible from its website a copy of the Code;

(c) give or send free of charge a copy of the Code (as from time to time revised) to any person who requests it; and

(d) make available to members of the public, in such form and in such manner as the Authority considers appropriate, information published by the Authority pursuant to Article 7 of the Energy Order.

2.9B.9 Subject to paragraph 2.9B.11, the Licensee shall comply with each Code to which this Condition applies and which has been approved by the Authority.

2.9B.10 The Licensee shall provide the Authority with all assistance reasonably necessary to enable the Authority to monitor the implementation and operation of any Code and this assistance shall include providing statistical data at such times and in such a format as the Authority reasonably requires and permitting the Authority access to relevant documentation held by the Licensee.

2.9B.11 The Authority may (following consultation with the Licensee, and in the case of the Distribution Marketing Code, other distribution system operators) issue directions relieving the Licensee of any of its obligations under Conditions 2.7A, 2.8A and 2.9A and this Condition to such extent as may be specified
Reasons and Effects

5.13 The UR considers that the proposed modifications will create consistency between the licences for the gas Distribution System Operators and the licences for the gas suppliers.

Costs and Benefits

5.14 The licensees will not incur any additional costs as a result of the implementation of these modifications. The licensees may require resources to review and amend codes of practice in the future, however under the current licence this is already a requirement and we consider that these costs would not be material. The benefit of the modifications will be increased consistency between the licences for gas supply and distribution companies in relation to the required codes of practice.

Terms and Conditions for Domestic Consumers

Policy Background

5.15 On 13 September 2012, new licence conditions were implemented for the gas conveyance licence held by PNGL and by firmus to introduce relevant consumer protection measures that were required to comply with the requirements of the Gas Directive.

5.16 However we have identified that an additional licence condition is required for the purposes of the consumer protection measures set out in the Gas Directive.
5.17 Article 10A(4)(b) of the Gas Order requires that conditions must be included in the distribution conveyance licences to provide that where the Distribution licence holder enters into a contract with a domestic customer:
(i) the terms and conditions of such contract must comply with items (a) and (d) of paragraph 1 of Annex 1 to the directive; and
(ii) and the licence holder must comply with the requirements of items (b), (c), (d) and (g) of paragraph 1 of Annex 1 to the directive.

5.18 Generally speaking the only direct relationship that a gas distribution company has with a domestic customer relates to the provision (and maintenance) of a connection between the customer’s premises and the gas distributor’s network – which is governed by a connection agreement i.e. a contract.

5.19 Accordingly that contract (the connection agreement) has to comply with the relevant requirements of the Directive and in accordance with the Gas Order, the gas distribution licence must include a condition in respect of those requirements.

5.20 We are therefore proposing to add a new condition into both the PNGL and firmus licences which will contain requirements in relation to the terms and conditions of any gas contract that the licensee enters or offers into with a domestic consumer.

5.21 It is envisaged that this condition will primarily (but not solely) apply in relation to connection agreements.
Proposed Modifications

5.22 The proposed new licence condition in PNGL’s and firmus’ licence is condition 2.2A, entitled “Terms and Conditions of Gas Contracts with Domestic Consumers”. The proposed new condition reads as follows:

<table>
<thead>
<tr>
<th>Condition 2.2A: Terms and Conditions of Gas Contracts with Domestic Consumers</th>
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<tbody>
<tr>
<td><strong>2.2A.1</strong> The Licensee shall ensure that any contract it enters or offers to enter into with a domestic consumer for the provision of any gas service (a <strong>Gas Contract</strong>) contains provisions which are in clear and comprehensible language and which incorporate all relevant information so as to enable the consumer to understand the terms and conditions under which the services are, or are to be, provided.</td>
</tr>
<tr>
<td><strong>2.2A.2</strong> Before entering into or concluding a Gas Contract with any domestic consumer, the Licensee shall give the domestic consumer:</td>
</tr>
<tr>
<td>(a) a written copy of the full terms and conditions of the Gas Contract, including without limitation all the information referred to in paragraph 2.2A.3; and</td>
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<tr>
<td>(b) details of how the domestic consumer can contact, and the relevant address and telephone number of, the General Consumer Council for further help and advice, including in particular with regard to their rights in relation to the supply of</td>
</tr>
</tbody>
</table>
2.2A.3 The Licensee shall ensure that every Gas Contract (as between the Licensee and each domestic consumer) shall, as a minimum, include the following:

(a) the identity and address of the Licensee and any other appropriate contact details;

(b) the services to be provided, the service quality levels offered by the Licensee and, where the Gas Contract relates to the provision of a connection between the domestic consumer’s premises and the Licensee’s Network, the time within which the connection will be made;

(c) the duration of the Gas Contract, the terms and conditions for renewal and for termination of the Contract (which terms and conditions shall be compliant with the requirements of this Condition), and the existence of any right of cancellation or termination of the Gas Contract;

(d) (if offered by the Licensee) the types of maintenance service offered under the Gas Contract;

(e) a right for the domestic consumer to terminate the Gas Contract where the Licensee proposes a variation to that Gas Contract and the domestic consumer does not wish to accept the proposed variation, together with an explanation of the
exercise of any such right by the domestic consumer on the services that are being provided by the Licensee under the Gas Contract;

(f) the charges and/or other payments to be paid by the domestic consumer in a manner that enables the domestic consumer to identify all such charges and payments due under the Gas Contract and the dates or times at which such charges or payments are to be paid;

(g) the compensation and the refund arrangements (if any) which will apply if contracted service quality levels, including in relation to inaccurate and delayed billing, are not met; and

(h) details of how the domestic consumer may initiate the Licensee’s complaint handling procedure as established in accordance with the Condition relating to Complaints Handling Procedure).

2.2A.4 The Licensee shall ensure that any Gas Contract it enters or offers to enter into provides the domestic consumer with a choice of payment methods.

2.2A.5 Any difference in or between any of the Licensee’s Gas Contracts arising from the choice of payment method shall be determined by the Licensee on a basis which reflects the costs to the Licensee of providing that different payment method.

2.2A.6 Where the Licensee proposes to vary any of the terms
and conditions, including term as to price, of a Gas Contract it has with a domestic consumer, it shall, by way of sending a notice that sets out the information in clear, transparent and easy to read and understand language, notify each such domestic consumer of the proposed variation, together with the consumer’s right (as included in the Gas Contract in accordance with paragraph 2.2A.3(e)) to terminate the Gas Contract before the proposed variation is due to take effect, at least 21 days in advance of the date the variation is due to take effect.

Reasons and Effects

5.23 The UR considers that the proposed modification to include a new licence condition in relation to the terms and conditions of contracts with gas consumers will provide further clarity and ensure consumers are granted the levels of consumer protection required under the Directive.

Costs and Benefits

5.24 We envisage that the Distribution licence holders will incur some costs in complying with this new licence condition as they will be required to carry out reviews and possible amendments to their existing terms and conditions. However we consider that these costs will be immaterial and we believe that the terms and conditions of the licence holders may already be compliant in many of the aspects required by the new licence condition.
5.25 The benefits of the new licence condition will be additional protection for domestic consumers and it will also ensure clarity and transparency for consumers in relation to Directive implementation.

Codes of Practice for Gas Distribution Companies

Policy Background

5.26 In the Decision Paper of 30 April 2013 paragraph 2(b) of Condition 2.5 of the PNGL licence was amended to cater for balancing, in the event the Distribution System Operator were to undertake this task. The firmus licence already catered for this eventuality.

5.27 It was noticed however that the equivalent condition in the firmus licence – Condition 2.4 – had an error, making the paragraph unclear and incomplete. As this section had not been consulted on for firmus it could not be fixed in the Decision paper of 30 April. We now propose to correct this in the firmus licence.

Proposed Modification

5.28 Paragraphs 2(c) of the Condition 2.4 of the firmus licence will now be modified so that it reads:

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“(c) where, pursuant to Condition 2.14.2 the Licensee is designated as a distribution system operator, ensure that the Distribution Network Code contains provisions that establish:

(i) the measures that the Licensee will put in place for the balancing of the Network;

(ii) the methodology used by the Licensee to procure the gas required for balancing the Network;”
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(iii) the methodology by which the charges to be levied on gas suppliers for the balancing of the Network are to be determined; and

(iv) the technical safety criteria applicable to the operation of the Network;”
Chapter 6: Gas Transmission
(Excluding unbundling)

Introduction

6.1. This section of the consultation paper outlines a further modification required to gas conveyance licences of the gas transmission system operators (TSOs). The modification is proposed to the licences of Premier Transmission Ltd. (PTL), Belfast Gas Transmission Ltd. (BGTL), and BGE(UK) to ensure consistency between all the gas TSO licences in relation to Article 5 requirements of the Directive.

6.2. All the other modifications required for implementation of the non unbundling aspects of the 3rd Energy Package where consulted on in March 2013. The modifications necessary to give effect to the unbundling provisions within the Directive went out to consultation on 2 May 2013. (See Annex 1 for relevant link).

Network forecasts

Policy background

6.3. The Directive requires that security of supply issues are monitored on an annual basis and this is currently implemented via the joint gas capacity statement process which the TSOs and the Utility Regulator engage in each year.

6.4. The requirement to monitor security of supply is reflected in the BGE(UK) licence in condition 2.10 Network Forecasts but this condition is not replicated in either the PTL or BGTL licences. It is also the case that the drafting of the existing condition in the BGE (UK) licence does not quite
capture the intention of the Directive requirements or the UR’s policy.

6.5. We therefore propose to include a new condition entitled *Network Forecasts* in all the TSO licences (which is based on the existing Condition 2.10 in the BGE(UK) licence but differs in a number of respects as explained below).

**Proposed modification**

6.6. This revised condition differs from the existing Condition 2.10 in the BGE(UK) licence in the following respects:

- It creates provision for forecast information to be provided by the tenth working day in June in each calendar year.\(^4\)

- It places the requirement to provide a coordinated statement between Designated Pipeline Operators. The TSOs already do this in practice but the current condition 2.10 of the BGE(UK) licence does not require the TSOs to coordinate in order to produce a coordinated statement. We therefore propose to regularise the position through the new/revised licence condition.

- Includes an updated legislative reference in condition 2.10.3;

6.7. This condition as amended is proposed to be incorporated in all TSO licences in order to maintain consistency.

6.8. The new (or revised in the case of BGE(UK)) condition in the licences will read as follows –

\(^4\) (Article 5 stipulates that a report arising from the monitoring undertaken under Article 5 is published each year by 31 July.)
2.xx.1 Network Forecasts

The licensee shall comply with a direction given by the Authority to prepare a statement in such form as may be specified in the direction giving, with respect to each of the 10 succeeding years beginning with [1 June 2013] such information by way of forecasts of:

(a) the use, to the best of the Licensee's knowledge and belief, likely to be made of the Network or any part of the Network by persons authorised to convey, store or supply gas under Article 8 of the Order (including the Licensee and any affiliate or related undertaking of the Licensee); and

(b) the likely developments to the Network which the Licensee expects from time to time to be taken into account in determining the charges for making connections to that system and for entering into arrangements for the conveyance of gas;

as will assist:

(c) a person seeking to connect a pipe-line of his to the Network or enter into arrangements for the conveyance of gas in identifying and evaluating the opportunities for so doing; and

(d) the Authority to monitor issues relating to security of supply.

2.xx.2 Co-ordination with Statements of other Designated Pipeline Operators

The preparation of any statement in accordance with paragraph 1 shall, so far as possible be co-ordinated with the preparation of the
corresponding or equivalent statement required to be produced by every other Designated Pipeline Operator and such statements shall, so far as possible and save to the extent the Authority consents otherwise, be prepared on a consistent basis.

2.xx.3 Revised Network forecasts

Except in so far as the Authority consents to the Licensee not doing so, the Licensee shall, on an annual basis, prepare a revision of any statement prepared under Condition 2.13.1 so as to ensure that, so far as reasonably practicable, the information in the revised statement is up to date.

2.xx.4 Provision and Publication of forecasts

The Licensee shall, subject to any requirement to comply as is appropriate with the listing rules (within the meaning of Part VI of the Financial Services and Markets Act 2000) of the Stock Exchange and with Condition 2.13.5:

(e) no later than the tenth working day of June in each calendar year, furnish the Authority with a copy of the statement prepared under Condition 2.13.1 and of each revision of the statement prepared under Condition 2.13.3;

(f) in such form and manner as the Authority may direct, publish a description of the statement and of each revision; and

(g) send a copy of the statement and of each revision to any person who asks for one on payment of a charge in respect of the cost incurred by the Licensee in complying with this requirement which does not exceed such amount as the
Authority may from time to time direct.

2.xx.5 Particular interests

In complying with the requirements of Condition 2.13.4(b) and (c), the Licensee shall have regard to the need for excluding, so far as practicable:

(h) any matter which relates to the affairs of an individual, where the publication of that matter would or might seriously and prejudicially affect the interests of that individual; and

(i) any matter which relates specifically to the affairs of a particular body of persons, whether corporate or unincorporated where publication of that matter would or might seriously and prejudicially affect the interests of that body.

2.xx.6 Determination by Authority of Particular interests

Except in so far as the Authority consents to the Licensee not doing so, the Licensee shall refer for determination by the Authority any question as to whether any matter seriously and prejudicially affects the interests of an individual or a body of persons.

2.xx.7 Definition

In this Condition:

| Designated Pipeline Operator | has the meaning given to it in [Condition 2A.1] of this Licence. |
Reasons and effects, Costs and Benefits

6.9. The UR considers that the above modification provides greater clarity and transparency and will ensure consistency between all the gas TSO licences for the purposes of Article 5 of the Gas Directive.

6.10. There will be no additional costs associated with this modification as it reflects the current practice of the TSOs. The modification will however ensure consistency between all the TSO licences and so provide transparency and clarity in relation to Article 5 of the Gas Directive.
Annex 1: Useful Links

Relevant preliminary decisions, consultations and European decisions can be viewed at the following links:

1) The Commission’s decision in relation to SONI/NIE can be found at the following link.

2) The Commission’s opinion in relation to Moyle Interconnector Ltd can be found at the following link.

3) The Commission’s opinions and the UR’s final decisions in relation to the certification of Premier Transmission Ltd and Belfast Gas Transmission Ltd can be found at the following links.
   http://www.uregni.gov.uk/publications/decision_on_premier_transmission_ltd_certification/
   http://www.uregni.gov.uk/publications/decision_on_belfast_gas_transmission_ltd_certification/

4) The UR decision paper on the Licence modifications to implement the fully ownership unbundled model in the gas transmission licences can be found at the following links.