Northern Ireland Electricity
Transmission and Distribution
Price Control
2012-2017
Draft Determination
19 April 2012

Keypoint Briefing
KEYPOINT BRIEFING

1 BACKGROUND

1.1 Northern Ireland Electricity Ltd (NIE T&D) is the owner of the transmission and distribution electricity network in Northern Ireland. They are owned by ESB.

1.2 The network comprises overhead lines, underground cables and substations. The network connects power stations and other sources of electricity generation to businesses and homes.

1.3 NIE T&D is a monopoly business, so the Utility Regulator regulates the amount of revenue which NIE T&D can achieve via a ‘price control’.

1.4 The costs associated with the electricity network are recovered from customers through network charges. Network charges makes up approximately 24% of domestic electricity bill. The average household in currently pays £146 per year in charges for using the network.

1.5 The Utility Regulator’s primary duty is to protect the interest of consumers, while considering the company’s ability to finance its licensed activities.

2 RP5 PRICE CONTROL

2.1 This document outlines the Utility Regulator’s draft determination for the fifth price control for NIE T&D. This control will apply for five years from 1 October 2012 to 30 September 2017. It is referred to as RP5.

2.2 The costs covered by the price control include:

- Operating costs (Opex)
- Capital costs (Capex)
- Pension costs
- A rate of return on capital investment

2.3 NIE T&D requested up to £1.22 billion funding over five years based on the following:

- Operating costs (Opex) of £345m
- Capital costs (Capex) of £776m and £291m for renewables and interconnection
Pension costs of £77.2m (£10.5m ongoing; £66.7m deficit repair)
A rate of return on capital investment of 6.4% (pre tax real)

3 KEY PRINCIPLES
3.1 We have assessed NIE T&D’s submission against the following principles:
- The protection of consumers.
- Consumers do not pay twice.
- Provide appropriate allowance for NIE T&D to operate its business.
- Ensure renewable investment is provided in a timely manner.

4 KEY UTILITY REGULATOR PROPOSALS
4.1 Capital Expenditure - Capex
- The high level of investment for RP4 will be maintained for RP5. We are minded to allow £314.7m of the £776m funding requested by NIE to maintain its high level of network performance. Lower consumption means that less investment is likely to be needed in this area.
- Renewable and interconnection investment will be ring-fenced and assessed on an individual basis as the need is determined during the RP5 period.
- We have initiated an investigation in order to determine if any of the outperformance in the last price control has resulted from a reallocation of costs between capex and opex. The investigation will be completed during the consultation period of this draft determination.

4.2 Operational Expenditure - Opex
- We completed detailed benchmarking of NIE T&D costs against GB DNOs and this identified a 9% gap in efficiency.
- We consider there is scope for further efficiencies during RP5, which is reflected in our proposals.
- We are minded to allow £257m for opex in RP5.
4.3 Pensions

- We consider that only unavoidable costs should be recovered from consumers.
- Ongoing costs of the pension scheme accepted in full (£10.5m).
- Deficit repair for unavoidable costs (£24.3m) paid for by consumers.
- Avoidable costs associated with the deficit (£12.5m) to be paid by NIE T&D.
- We are minded to allow £22.3m for pensions in RP5.

4.4 Reporting

- We plan to introduce additional reporting requirements for RP5. In addition, we are minded to introduce a reporter. A Reporter is an independent professional(s) who audits, certifies and comments on submissions that are made by regulated companies to their regulators over a price control period.

4.5 Rate of return (WACC)

- Our proposed allowance for the costs of capital reflects NIE T&D’s actual cost of debt and is slightly higher than their current rate of return in nominal terms.
- Our proposals are similar to what equivalent electricity distribution network operators were awarded in England and Wales in 2009.
- allowance of 4.45% for reliability and growth capex (pre tax real).
- allowance of 4.0% for renewables and interconnection (pre tax real).

4.6 Our proposals would result in NIE T&D receiving up to £0.91 billion of revenue over 5 years.
5 IMPACT ON CONSUMERS

5.1 The table below shows the impact of our proposals on annual charges for 3 customer groups by the end of RP5. These figures do not include inflation.

5.2 Under our proposals, by 2016/17 the annual charges for the average household could reduce by £24.

5.3 If the full investment estimated by NIE T&D in renewables and interconnection were to take place, then annual charges for the average household could reduce by £18.

5.4 For large users, the full investment in renewables and interconnection results in a slight increase in average annual charges. This is because the investment is in the transmission network and charges for this part of the network make up a larger proportion of their bills than for other customers.

Table 1: Average annual network charges for 3 customer groups

<table>
<thead>
<tr>
<th></th>
<th>2011/12</th>
<th>2016/17 Excluding Renewables and Tyrone-Cavan</th>
<th>2016/17 Renewables and Tyrone-Cavan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic (4041 kWh/year)</td>
<td>£146</td>
<td>£122</td>
<td>£128</td>
</tr>
<tr>
<td>Small Business</td>
<td>£505</td>
<td>£421</td>
<td>£441</td>
</tr>
<tr>
<td>EHV Customer (27 GWh/year)</td>
<td>£138,850</td>
<td>£115,259</td>
<td>£139,010</td>
</tr>
</tbody>
</table>

Note these figures are in 09/10 prices and do not include inflation

6 NEXT STEPS

6.1 Consultation period begins on 19 April 2012 for 13 weeks – closing date for responses is 19 July 2012.

6.2 We expect extensive consultation with NIE T&D and other stakeholders over the consultation period, including issues such as changes to capitalisation practice.

6.3 Final determination is expected before the end of the year.