

**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**

	2011/12	2016/17	
		Excluding Renewables and Tyrone- Cavan	Renewables and Tyrone- Cavan
Domestic (4041 kWh/year)	£146	£122	£128
Small Business	£505	£421	£441
EHV Customer (27 GWh/year)	£138,850	£115,259	£139,010
<b>Note these figures are in 09/10 prices and do not include inflation</b>			

## 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.