

Northern Ireland Electricity Transmission and distribution price controls 2012-17

Final determination

23 October 2012

Key Point 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 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'.
- 1.3 The costs associated with the electricity network are recovered from customers through network charges. Network charges make up approximately 20% of a domestic electricity bill.
- 1.4 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 our final determination for the fifth price control for NIE T&D. This control will apply from 1 January 2013 to 30 September 2017. It is referred to as RP5.
- 2.2 The publication of the final determination follows a public consultation on the Regulator's proposals, which were published in April 2012. A separate public consultation was also conducted on an element of the final price control, relating to NIE T&D capitalisation practice. The final determination includes a decision on the NIE T&D capitalisation practice.
- 2.3 The costs covered by the price control include:
 - Operating costs (Opex)
 - Capital costs (Capex)
 - Pension costs
 - A rate of return on capital investment

3 KEY DECISIONS

Opex

- 3.1 NIE T&D requested £345 million of opex for RP5.
- 3.2 We have determined an operating expenditure allowance of £271 million (five years equivalent). NIE T&D will be allowed to retain efficient outperformance against this allowance.

Capex

- 3.3 NIE T&D requested £606 million of 'business as usual' capex initially. They then increased this amount to £776 million.
- 3.4 As well as this, NIE T&D requested £306 million for renewables investment initially. They then reduced this amount to £223 million.
- 3.5 We have determined a capital expenditure allowance of £396 million (five years equivalent) which has increased by 26% from our draft determination. We have also put special arrangements in place for approving additional capital expenditure to accommodate the integration of renewable generation and further interconnection, consistent with Northern Ireland's Strategic Energy Framework (estimate £223 million based on NIE T&D's proposal).

Pension costs

- 3.6 NIE T&D requested £10.5 million of ongoing pension costs and £66.7 million to repair a pension scheme deficit.
- 3.7 We have accepted NIE T&D's proposals in full for ongoing pension costs. As a matter of principle, we have determined that, from RP5 onwards, NIE T&D and Powerteam (an associated business) will be allowed efficiently incurred and prudently managed pension deficit costs. The total pension cost allowance for RP5 is £58 million (five-year equivalent). We will review this again following the next formal pension valuation in 2014.

Allowed rate of return

- 3.8 NIE T&D requested a weighted average cost of capital (WACC) of 5.34% (vanilla, real).
- 3.9 We have determined an allowed WACC of 4.55% (vanilla, real). This has increased from 4.45% in our draft determination. This same WACC will be applied to all three capital expenditure funds and to the existing regulatory asset base (RAB).

Capitalisation practice

- 3.10 We have determined that consumers will not pay twice for operational expenditure that was re-categorised as capital expenditure during the RP4 period. To have allowed this would have been inconsistent with the principle of 'no double counting' established for the RP4 price control.
- 3.11 An adjustment to NIE's RAB of £32 million will be made to reflect this.

4 IMPACT ON CONSUMERS

- 4.1 Network charges presently account for about 20% of the overall electricity bill for a domestic consumer.
- 4.2 Under NIE T&D's proposals, and before investment to facilitate renewables and for interconnection, network charges for domestic consumers would increase by on average £21 per year or 16%. For large industrial consumers, network charges would increase by around £19,000 per year or 15%.
- 4.3 Before investment to facilitate renewables and interconnection, network charges for domestic consumers will remain flat and for most business consumers will slightly decrease, on average and in real terms, over the price control period.
- 4.4 With the investments to facilitate renewables and interconnection included, network charges for domestic consumers will increase by on average around £4 per year or 2.7%. For large industrial consumers, network charges will increase by around £11,000 per year or 9%.
- 4.5 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.

	Current average cost	2016/ 17 Excluding Renewables and interconnector	2016/17 Including renewables and interconnector
Domestic (4041 kWh/year)	£132	£129	£137
Small business	£497	£485	£513
EHV customer (27 GWh/year)	£124,927	£123,560	£148,423

5 NEXT STEPS

- 5.1 There will be a four-week consultation on licence modifications.
- 5.2 Licence modifications will reflect a start date of 1 January 2013.