

Energy



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Dear Paul

NORTHERN IRELAND ELECTRICITY LIMITED PRICE DETERMINATION

Thank you for your letter of 7 May 2013 asking if the Department of Enterprise, Trade and Investment (DETI) would wish to put forward a submission in relation to the Northern Ireland Electricity Limited price determination referral. DETI welcomes the opportunity to engage with the Competition Commission on this issue.

In the first instance, it might be useful to provide some details on the duties and responsibilities of DETI and the Utility Regulator as defined in the regulatory and policy frameworks for Northern Ireland.

The key elements of the regulatory/legislative framework are to be found in the Energy (Northern Ireland) Order 2003 (The '**Energy Order**') and the Electricity (Northern Ireland) Order 1992 (The '**Electricity Order**'). The Energy Order (Article 12) sets out the principal objective and duties of DETI and the Northern Ireland Authority for Utility Regulation (the Utility Regulator) in relation to the electricity sector.

The principal objective is to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with the generation, transmission or supply of electricity.

In carrying out functions in support of the principal objective, both DETI and the Utility Regulator are required to have regard to the need to ensure that all reasonable demands for electricity are met and that licence holders are able to finance activities which impose obligations under the Order. Should you wish to access the main duties within the Energy (Northern Ireland) Order 2003, you can do so at the following link: <http://www.legislation.gov.uk/nisi/2003/419/contents/made>.

In relation to energy policy per se the key document is the Strategic Energy Framework (SEF) which was endorsed and published by the Northern Ireland Executive in 2010. This sets a clear direction of travel in relation to policy over the ten year period to 2020 and sends unambiguous and timely signals of priorities – signals that will guide market participants and encourage investment in both renewable energy and the provision of new infrastructure (including electricity infrastructure) to improve security and diversity of energy supply and support economic activity while at the same time contributing to reduced carbon emissions. While the SEF provides a level of detail in terms of the way forward for government energy policy, underpinned by a clear rationale and supported by some 40 actions for delivery over a ten year period, the Northern Ireland Executive has also anchored energy policy and the SEF in its wider economic policy – with key deliverables from the SEF reflected in the Regional Economic Strategy. In addition, the overarching Programme for Government confirms commitments to delivery of energy policy and places this in the context of not only economic drivers, but the wider social and environmental policy. Copies of these key documents are available on the DETI and NI Executive websites or can be made available in hard copy if required.

The overarching aim of the SEF is for a more secure and sustainable energy system where : energy is as competitively priced as possible alongside robust security of supply; much more of our energy is from renewable sources and the resulting economic opportunities are fully exploited; and, energy efficiency is maximised. The framework acknowledges fully that a range of investments are needed in energy infrastructure (gas, electricity and renewables) in the short and medium terms in order to deliver long-term benefits to consumers. This includes investment in the electricity grid.

The SEF specifically references that the most significant policy intervention on electricity matters in recent times was the creation of the Single Electricity Market (SEM) in Northern Ireland/RoI. In light of more recent developments at European level, the SEM is now subject to further change to meet the requirements of the new target market model to facilitate greater integration across the EU. It therefore remains the case that the key to growing the market is a robust and stable electricity transmission system.

This is critical to a modern economy, and investment in the electricity grid is a feature of markets world-wide. The existence of a robust 'modern' electricity grid is an increasingly important requirement given the imperative of addressing EU targets associated with decarbonisation and with the policy, regulatory and technical challenges of integrating renewables (and especially wind with its intermittency complications) onto the grid.

In a purely Northern Ireland context, challenging renewables targets are at the core of the SEF, and to reflect this, a specific action (number 37) tasks the Department with ensuring cooperation between the Utility Regulator, Northern Ireland Electricity (the owner of the grid) and the System Operator for Northern Ireland (SONI) to deliver the required electricity grid infrastructure.

The Northern Ireland Executive recognises that investment in economic infrastructure, including the electricity grid is a key requirement for building the Northern Ireland economy and delivering economic growth. However, this ambition is very much positioned against ensuring that continued downward pressure on energy prices is maintained, as far as possible, for both business and domestic consumers.

Estimates of the quantum of investment required vary. In the affordability section of the SEF, it is noted that at the time of preparing and agreeing the framework, NIE estimated that up to £1 billion of investment was likely to be required to support a target of 40% renewable energy by 2020. So, it is fair to say that, in agreeing the long term strategy for energy, the Northern Ireland Executive was fully aware of the cost implications (albeit that these are at a high level and that costs would be incurred only on an incremental basis), and level of capital investment that might be needed in the electricity grid.

The Department, however, fully acknowledges that efficient use of existing assets, coupled with best practice regulation, is the key to delivering the appropriate investment in the grid, at the appropriate time.

In conclusion, the Department recognises that difficult choices about energy priorities have to be made, often balancing competing strategic factors against immediate, environmental, social and economic factors. DETI very much values stable, best practice regulation as a catalyst for continued investment in the infrastructure in an efficient and effective manner and that this leads to a position whereby financing costs are not higher than necessary. The adoption of best practice in terms of regulation of the industries in Northern Ireland is a basic requirement in the view of the Department to underpin delivery of policy and, in particular, to ensure investments that will protect security of supply and delivery energy costs that are as competitive as possible. And, from the wider economic viewpoint, the Department, as the main department for the economy in Northern Ireland, also views investment in infrastructure, including energy infrastructure, as a significant stimulus to economic growth.

The Department looks forward to the early completion of the Competition Commission's inquiry into these matters.

Yours sincerely

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