



Response to Competition Commission on the Northern Ireland Electricity Limited price determination

Manufacturing NI welcomes the opportunity to respond to the Competition Commission on this issue. Manufacturing NI represents the interest of almost 500 manufacturers in Northern Ireland including some of the largest energy users. Energy is typically the third largest cost faced by manufacturers after labour and raw materials and is a vital component of every manufactured product.

However we would stress that we have neither the resources nor the expertise to examine what is a very complex matter in detail. We have examined the Utility Regulators proposals and we have also been briefed by Northern Ireland Electricity about their position in relation to the proposals.

In this regard we are inclined to the conclusion that the Utility Regulator has both the expertise and resources to examine NIE's proposals in detail, and that it is his legislative duty to act in the best interest of consumers including our members.

Electricity Costs in Northern Ireland

Competitive energy costs are vital to the survival of the manufacturing sector in Northern Ireland. For some time now we have been highlighting the fact that our members are struggling to compete against a background where they are paying a major premium on electricity costs over their competitors in GB, the Republic of Ireland and elsewhere in Europe. We refer the Commission to the Utility Regulators recently published research "Northern Ireland Electricity Prices: Data and Comparisons"

Although the research shows that some 71% of I&C users enjoy competitive electricity costs, these customers are largely small shops, office and micro businesses who purchase electricity on a domestic tariff. This is evidenced by the fact that they consume only 9.7% of I&C electricity.

The remaining 29% of I&C users, who consume over 90% of I&C electricity are paying well above the European median, with the second highest electricity costs in Europe after Italy.

Despite the bad news contained in this report we welcome the increased transparency that the Regulators research brings to the marketplace for large energy users. This research confirms what we have been highlighting to the Department of Enterprise, Trade and Investment for some time. Electricity costs for manufacturers in NI are almost double those of our competitors in countries such as France and Sweden, and significantly higher than both GB and the Republic of Ireland. These latest figures provide indisputable evidence of exactly where Northern Ireland sits in terms of manufacturing costs.

High costs such as these have a major impact on the competitiveness of Northern Ireland plc and consequently on jobs in the private sector. Local manufacturers who are competing in export markets face huge challenges to overcome such a high cost base against their competitors. Our largest employers, many of whom are multi-national companies such as Michelin, Montupet, Bombardier and Almac, are effectively competing against other plants in their own group located elsewhere in the world, where electricity costs are much lower with differentials as high as 300% compared with other jurisdictions such as the USA.

Manufacturing NI believes that the major driver of such high electricity costs is network costs. Appendix A provides an up to date analysis of network costs and taxation for a typical company with an electricity spend of around £530,000 per annum in Northern Ireland. The table shows what their network costs would be if they were located in the Republic of Ireland.

Leaving aside the various elements of taxation charged by the two governments, the table shows that a typical NI company is paying a premium of some 42.3% this year on network charges over Southern competitors. This has increased in 2012/13 from a premium of 19.75% in 2011/12, and 16.9% in tariff year 2010/11.

Transmission charges in Northern Ireland have increased by 41% on average between 2011-12. This is much higher than the UK and ROI whose average annual increases are under 20%. Use of System charges account for approximately 11% of overall electricity spend in NI and have a significant impact on end-user price. Users need to be reassured that the structure and application of such charges comply with best practice in the EU.

Demand on the network has a major impact on network costs and has already reduced 4% from 2008. If electricity prices continue to rise as predicted we have serious concerns that a number of large users may close their Northern Ireland operations thus compounding costs for remaining users. There are also indications that some large users are considering self-generation to save on network costs. This would of course have the same impact on remaining users.

RP5 Price Control

As stated at the beginning of this letter, Manufacturing NI support the Utility Regulator's position in regard to this price control. Expenditure on the network, whether operating or capital is funded by consumers, and we believe that the Utility Regulator has acted in our members best interests in this matter.

There are a number of areas which are of particular concern to our members and which have a major impact on the confidence of consumers in relation to NIE operations. We believe that consumer confidence has been seriously eroded by NIE's resistance to more transparency and accountability in their business and by the following factors: -

- It has been indicated to us that the present owners paid 20% more than regulated value for company when they purchased it, and some 15% more than the under bidder. This is serious concern among users that this overpayment can only be recovered by NIE through outperformance on more and more capital works;
- NIE have refused to accept -1% efficiency target on operating expenditure. We understand that this efficiency target is common practice amongst utility companies.
- Most of NIE's work delivered by Powerteam who are wholly owned subsidiary and not subject to regulation. This provides the potential to retain profit in an unregulated business
- There has been a 30% reduction in opex from 2004/5 to 2006/7 – this expenditure has been moved to capex which we understand may be in breach of regulation rules. We are strongly of the opinion that consumers should not pay twice for this and that these payments made in the RP4 period should not be added to the asset base in the RP5 period.
- The company displays major inefficiencies compared to other utility companies in the UK;
- There has been a huge increase in the request for Capex – from £370m in RP4 to £660m in RP5. NIE fail to recognise that consumers cannot fund such increased investment in the middle of a recession. Such increased costs will have a major impact on fuel poverty, competitiveness and employment;
- NIE's refusal to accept an independent "Reporter" embedded in the company;
- Recent changes in capitalisation practice and the high level of capitalisation;
- We consider that pension deficit costs should not be funded wholly by consumers but shared between NIE & consumers. Account must also be given to pension holidays taken by the company;

We believe that it is vital that the Commission take account of the prevailing economic climate and all of the above matters when considering what is a prudent investment in our electricity network at this time.

In the interests of transparency, we would also ask the Commission to ensure that all trade or business organisations who respond to this consultation, declare

whether NIE is a member of their organisation. Northern Ireland Electricity is not a member of Manufacturing Northern Ireland.

Manufacturing NI have no objection to the publication of this submission.

Bryan Gray,
Cheif Executive