Major Energy Users' Council
THE UTILITY CONSUMER NETWORK & LOBBY

Mr. Paul Jackson
Inquiry Manager
NIE Price Determination
Competition Commission
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Don McGarrigle
MEUC (NI) Manager
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29th May 2013

Dear Mr Jackson,

**NIE T&D PRICE DETERMINATION**

Thank you for the opportunity to respond to the above consultation on NIE Price Determination. The Major Energy Users Council is an organisation which represents the views of UK business customers operating in the Industrial, Commercial, Retail and Public Sector arenas on all aspects of energy policy and energy pricing. We have a number of member companies resident in Northern Ireland and many GB member companies with operations in the province, all of whom will be directly affected by this determination.

Some of the comments made below were submitted to NI Utility Regulator's consultation held in the summer of 2012. However they are still valid and we re-submit again the key points along with some new issues which have arisen in the last few months. Our comments are of a general nature as some of the concepts and arguments are quite technical in nature.

**ECONOMIC CONSIDERATIONS**

A recent European price investigation by the NI Regulator established that electricity prices in the province are already some of the highest in Europe especially in the medium to large customer range. See Fig.1 below. Therefore, in this current economic uncertainty it is very important that additional costs to customers are constrained as much as possible.

Government looks to the business sector to lead the UK recovery out of recession. We are of the view that the proposed increases by NIE T&D are excessive in the backdrop of the Government's expectation on businesses. We contend that they are out of step with other Distribution Network Operators in the GB market and we therefore fully support the Regulator's proposals, as a more equitable approach.

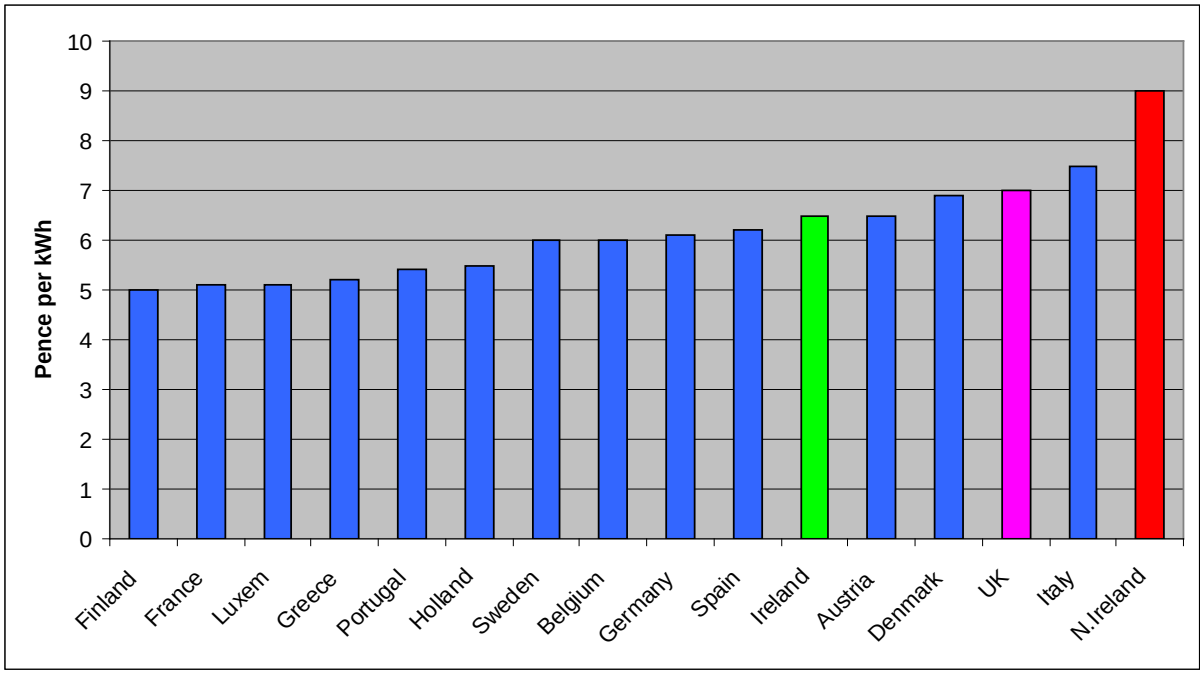


Figure 1 Electricity costs in 2011 (excl Taxes and VAT)

This graph clearly shows the price differential between NI prices and the rest of the UK but more importantly the differential between Northern Ireland and the Republic. There is a single electricity price for generation throughout the island of Ireland and any widening of the delivered price differentials will increase the current investment imbalance between NI and ROI. We are of the view that excess increases in transportation costs are one such element that will increase these differentials.

## METHODOLOGY OF THE DETERMINATION

The consultation proposals carried out by the NI Regulator show an exhaustive approach to benchmarking NIE with other UK Distribution Network Operators (DNO's). This activity is not restricted to the RP5 Price Control but also makes significant references and comparisons to the RP3 and RP4 price controls. We are very impressed by the thoroughness of this methodology and the attention to detail.

In recent months the MEUC had the opportunity to attend other UK Distribution Network Operator's consultations on their Price Controls for the period 2014 – 2022. The cost projections for GB customers over the next eight year period is at worst flat and in the best case a 10% real reduction to customers over the eight year period. Some DNO's are working on the basis of a 3.8% return on investment which is lower than the NI Regulators proposals of 4.5% and the 5.5% proposed by NIE. It appears to us therefore that the NIE proposals seem to be out of step with others key players in the industry.

**SPECIFIC ISSUES**

We would comment on some of the specific issues in the Determination which will strike a chord with our members.

The NIE price control analysis gives depreciation on plant and equipment of 40 years. In GB networks and it would appear also in NIE systems, equipment is being operated for 50 years plus. Our query would be that perhaps 50 year depreciation might be more appropriate in the various calculations.

The Composite Scale Variable assessment shows NIE to be 35% higher than the average UK DNO and a staggering 70% higher than similarly sized DNO's on the mainland. This is clearly an unacceptable level of variation.

We are alarmed that the NIE proposals, if adopted, will increase transportation tariffs to Northern Ireland customers by 46% over the price control period (25% if Interconnectors and Renewables are excluded). At this time of business contraction throughout Europe and coupled with the fact that many businesses are looking seriously at "self supply arrangements" we find it difficult to accept that these levels of increases are necessary.

We support the view that NIE should do more to reduce the amount of losses on the network. This has been an active strategy in GB networks for a decade or more. NIE appear to be dragging their feet on this element of energy transport and in our view this is not frontier technology techniques. The metering systems are already in place for apportioning costs between generation, transmission and distribution could equally be used for the evaluation of losses.

We trust you find these comment of interest and look forward to an early resolution of the Price Control debate. If we can be of any further assistance please make contact by telephone or email.

Yours faithfully

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