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Paul Jackson
Inquiry Manager
NIE Price Determination
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

Dear Paul,

ULSTER FARMERS UNION SUBMISSION ON NIE PRICE DETERMINATION

The Ulster Farmers' Union (UFU) is the largest farming organisation in Northern Ireland representing over 12,500 farming families and we welcome the opportunity to make a submission to the Competition Commission on the disputed price determination RP5.

Being the largest representative of the rural economy in Northern Ireland, we have many members who will be directly affected by any decisions arising from this price determination.

UFU Position

The UFU position is that NIE T&D should be granted the level of investment they have submitted in order to strengthen and rebuild the grid and thereby enable our members (as well as the wider rural community) to avail of the services they so heavily rely on.

Electricity Usage by NI Agricultural Sector

In terms of day-to-day electricity usage, consider the example of a dairy farming to see the reliance our members have on the 11kV lines; there are 2,800 dairy farms in Northern Ireland producing 2 billion litres of milk per annum.

Table One illustrates three different sizes of dairy farms and a range of average electricity usage. A clear example of economies of scale since the usage is less when there are cows in the herd.

Table One – Electrical Energy used on Dairy Farms

Electrical Energy Used Each Year		
Number of dairy cows		Per Head
0-88	Equivalent Kilowatt Hours	340 to 434
89-140	Equivalent Kilowatt Hours	280 to 373
141+	Equivalent Kilowatt Hours	273 to 351

If you consider the fact that the average dairy herd size in Northern Ireland is 80 cows you will see that this sector is an intensive consumer of electricity as the majority of Northern Ireland dairy farms will come under the first category, namely the most intensive users of electricity.

Dependence upon the 11kV Network

With c.40,000 farms throughout Northern Ireland, our members are solely dependent upon the 11kV network and lines. If you consider the fact that in Northern Ireland there is approximately 3.5 times more overhead line per customer than the average Distribution Network Operator on the UK mainland, which illustrates the importance of a resilient and reliable electricity network being available.

Failure to allow adequate investment in the 11kV network will impact upon Northern Ireland farmers and landowners on three counts;

1. Farm businesses are direct customers of NIE T&D as their businesses consume large and significant volumes of electricity every second of a working day.
2. NI farm land incorporate and facilitate much of NIE T&D's infrastructure and capital equipment (lines, poles, substations etc) and our members receive a wayleave payment in many instances.
3. Farmers and land owners are the main generators of small scale renewable electricity (<250kW) in Northern Ireland, mainly through wind turbines.

Background to UFU Submission to Competition Commission

On 18 July 2012, the UFU wrote to NIAUR in reply to their Draft Determination for NIE Transmission and Distribution RP5 (published 19 April 2012). In this document we set out our concerns about the reduced level of investment for NIE T&D in RP5. The UFU made the case in that NIE T&D should be granted the level of investment they have pitched for in order to strengthen and rebuild the grid to enable our members (as well as the wider rural community) to avail of the services they so heavily rely on.

NIAUR Response to UFU Submission

On 23 October 2012, in their response to all Consultation submissions, NIAUR replied to each of our points.

The UFU acknowledges that NIAUR provided satisfactory responses to the following areas;

- **Connections**
 - **Removal of 40% subsidy** – The UFU accepts what NIAUR say in their response.
- **Innovation**
 - **RHI** – the UFU are satisfied with the NIAUR response since there have been significant developments in the renewable heat policy area in Northern Ireland since our submission.
 - **Vulnerable Customer Programme** – the UFU appreciates what NIAUR say in relation to the background to the scheme, yet we felt it was an appropriate opportunity to highlight the vulnerable consumers, specifically in rural areas.

However, we still have concerns on the following areas;

- **Incentives**

- **Customer Services Initiative** - UFU are disappointed that a customer services incentive is not to be introduced under RP5.

- **CAPEX**

Adequate CAPEX within RP5 is needed to re-build and re-furbish the 11kV network. We will address this in two parts;

- Day-to-day on-farm electricity use
- Connecting small scale renewables to the grid

- **Day-to-day on-farm electricity use**

NIAUR state that NIE has flexibility within Fund 1 to increase expenditure to carry this work out and that this allowance is “sufficient to ensure the continued reliability of the network”. However, the UFU have been led to believe that this is not practical. Significant resilience improvement is a prerequisite. This Fund is capped and there is a concern that NIE could have to de-prioritise other projects which will impact upon other obligations.

Farmers and landowners rely upon these lines as they criss-cross their land and their businesses are connected to this network and therefore reliant upon the electricity transmitted and distributed to run their farms. The nature of a perpetual asset such as the 11kV lines is that re-investment and regular upgrades are needed to ensure that the system does not degenerate into a state of decay. It would only take another event such as the April 2010 Ice Storm to create major problems. There are c. 15,200kms (73%) of the 11kV overhead line network is built with small cross sectional area conductors - 25mm² Aluminium Conductor Steel Reinforced (ACSR) and these lines are susceptible to ice accretion. The next time this occurs thousands of rural homes and businesses could be without electricity for extended periods meaning the possible of loss of livestock or even human life.

Approximately 11,000km (50%) of the overall 11kV overhead line network and 72% of the 25mm² 11kV overhead line network is also single phase - there is now a greater requirement for three phase supplies in rural areas for renewable connections etc.

Protecting the interests of the consumer is a key remit of NIAUR, and the UFU accepts the reasoning behind flagging up possible additional costs to the consumer from NIE proposals. However, it is the UFU view that costs to the end user/consumer extend beyond those seen in their electricity bills. Namely, failure to invest in the 11kV network could see more significant costs in terms of damaged lines, failing equipment, health and safety implications and the wider economic effect on the agri-food sector should produce be stalled leaving the farmgate.

- **Connecting small scale renewables to the grid**

The last 12 months have seen major problems on the ground when small scale renewable generators, in particular wind turbines 75-250kW, have attempted to connect to the 11kV network. There is a diminishing amount of spare capacity on the 11kV network, with certain lines in the country “full” and unable to accept further generation. The problem is exasperated due to the fact that applicants will

sometimes not know until they submit a grid connection application whether or not there is available capacity.

Due to these capacity issues, applicants have either faced large quotes to connect the grid or in the form of “conditional offers” an uncertain situation where they will not know whether or not they will be able to successfully connect to the grid, depending upon a ruling from NIAUR.

Since our submission to the final Price Determination, NIE have opted to take a revised approach in their Statement of Case. They are now seeking £35m for a substantial pilot to be carried out in what remains of the RP5 period, with the main issues then being addressed in RP6 and beyond. Whilst the details of the pilot are unclear at this stage, the UFU would be supportive of such work if it was to go some way to addressing all the concerns about the existing 11kV network detailed above, including looking at ways to increase capacity, with a pilot looking at this with a view to further work in RP6.

- **Review of the NIE Powerteam**

The UFU welcomes the statement by NIAUR that there will be no changes to NIE Powerteam in RP5.

However, the UFU wishes for it to go on record, ahead of any assessment on RP6, that our position remains unchanged. Namely, such is our member reliance upon contractors and the importance of a “single-point-of-contact”, we would be unconvinced that moving to a competitive tender process would improve fault/service resolution and could potentially leave our members exposed to system failures.

- **Wayleaves**

The UFU is of the opinion that rates and wayleaves are not “semi-controllable”, contrary to what NIAUR state in their Price Determination. We are opposed to a “RP4 average” being used as a base year. The UFU fears that this could mean a reduction in wayleave payments to local landowners and this in itself would be wholly unacceptable. The opposite should apply, namely, these rates should be rising, as new infrastructure and equipment will be brought onto our members land during RP5 and this will be need to be reflected in upwardly revised wayleave payments.

Summary of UFU submission

The UFU accepts that in reply to our submission, NIAUR have acknowledged and addressed several of our concerns as well as clarifying several queries which we had raised.

But this does not detract from the UFU view that the proposed level of investment is insufficient to allow NIE to manage network risk; safety; quality of supply and resilience to storms. Inadequate investment in upgrading and refurbishment of the 11kV network could impact upon all rural dwellers and we would urge that the Competition Commission take this into consideration when reaching their final deliberation.

The UFU would welcome to be involved in any formal inquiry process which may occur in the coming months. In addition, the UFU are content for our submission to published on your website and can be attributed to ourselves.

Yours sincerely,

CHRIS OSBORNE
UFU Senior Policy Officer