



PROTECTING CONSUMERS, TODAY AND TOMORROW

Corporate Strategy
2019-2024







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Our mission

To protect the short and long term interests of consumers of electricity, gas and water.

Our vision

To ensure value and sustainability in energy and water.

Our values

- Be a best practice regulator.
- Be professional.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

1 Foreword

After over a year of discussions and conversations about the future we are delighted to publish what is the Utility Regulator's third corporate strategy, covering the period 2019-2024.

Our journey to a renewed strategy started with a conversation about what the future looks like, our role and how we can best make

a difference for consumers. Rather than a remedial approach we decided to set a course that embraces change and meets head-on the challenges of the future.

At the time of writing there remains uncertainty about the final outcome of the UK's exit from the EU. Despite this we're more convinced than ever that the success of our strategy is on protecting all energy and water consumers, today and tomorrow. Our commitment to consumers is central to our strategy and that's why protecting and empowering all consumers is an overarching purpose.





In energy, we know we are at the start of a period of potentially far reaching change, driven by the urgent need to decarbonise our economy and substantial technological change. This energy transition is underway and we have listened to the views and read the comments of all interested parties – there is a clear consensus of the importance of this transition. We recognise that we have a leadership role working with others to make the energy transition happen. The extent of the change is complex and we will play our part in making sure that the consumer interest is protected during the energy transition.

In many ways our strategic objective on enabling 21st century networks sums up our approach to change. We believe that we can be an enabler, supporting the kind of change by utility networks that businesses and households can benefit from. With ambition, improvement and innovation as watchwords, we expect energy and water consumers to benefit from forward looking utility companies that also contribute positively to the Northern Ireland economy.

Our new strategy also places an emphasis on balance in how we carry out our regulatory activities. We have consistently endorsed competition and choice in consumer markets as one way of protecting and empowering consumers in utility markets. But it is not the only way. We believe that all consumers, particularly those that are the most vulnerable in society, must be able to receive fair outcomes from their engagement with utility markets.

Having transformed the Single Electricity Market (SEM) in our last corporate strategy period, we affirm our commitment to ongoing work with the Irish regulator, the Commission for the Regulation of Utilities, and the SEM Committee, to maximise the benefits of the all-island wholesale electricity market.

Consumers also deserve the assurance that they will receive a reliable energy and water supply now and in the future. We set out how

we will enable security of supply for homes and business through, for instance, facilitating the delivery of a second north-south electricity interconnector.

A sustainable supply which enables decarbonisation is also key. We have a role in ensuring that investment by utility companies best supports government decarbonisation targets and we are determined to be an enabler of a low carbon future.

In developing our strategy we have benefitted from the contributions of external organisations that took part in workshops and briefings and responded to our formal consultation. Our staff have also helped shape our new priorities. All of these contributions have enriched the conversation on our future strategic direction.

The board and senior management team will now work together to deliver our new strategy. We recognise the opportunity that it presents to make a difference to consumers and to Northern Ireland as a whole. In doing this, we look forward to working with our stakeholders as we tackle the challenges ahead.



Bill Emery
Chairman



Jenny Pyper
Chief Executive

2 Introduction

This is our corporate strategy for 2019-2024.

About us

We are the independent non-ministerial government department responsible for regulating Northern Ireland's (NI's) electricity, gas, water and sewerage industries and are governed by a publicly appointed board.

Protecting consumers, today and tomorrow

Our work is based on our statutory duties which include:

Energy – electricity and gas

Protecting the interests of electricity consumers with regard to price and quality of service, where appropriate by promoting effective competition; and promoting the development and maintenance of an efficient, economic and coordinated gas industry.

Water

Protecting the interests of water and sewerage consumers by promoting an efficient industry delivering high quality services.

How we developed our strategy

We have been developing our strategy over the last year and our stakeholders, both internal and external, have been central to helping us. Their contributions have helped shape our thinking and have enriched the development process.

Our consultation demonstrated that stakeholders broadly welcomed our strategy. They also supported the focus on putting consumers at the centre. There was much comment on the changing context, particularly around the energy transition, and we have sought to underline our role during this change in our final document.

Several respondents also identified uncertainties around Brexit and the absence of a NI Assembly. At the time of publishing our strategy, we recognise that these uncertainties may potentially impact on our ability to deliver key outcomes. We will therefore keep under constant review the need to re-assess key strategy outcomes as the need arises.

Finally, there were several more minor drafting suggestions from respondents that have been reflected in this final document. All of the responses to our consultation will be published on our website, along with our strategy.



3 Our corporate strategy



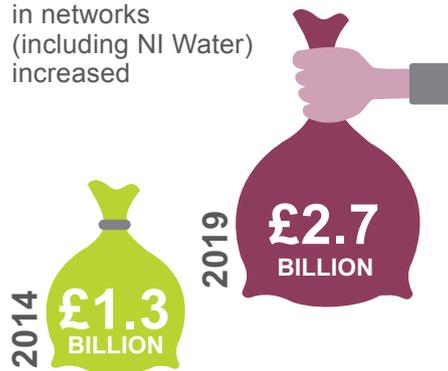
4 Overview of corporate strategy 2014-2019

The first step in developing our new strategy was to look back at progress against our 2014-2019 strategy. We provide below an overview of key achievements during our previous strategy.

REGULATED domestic electricity and gas bills in 2018 were amongst the **LOWEST IN EUROPE**



EFFICIENT INVESTMENT in networks (including NI Water) increased



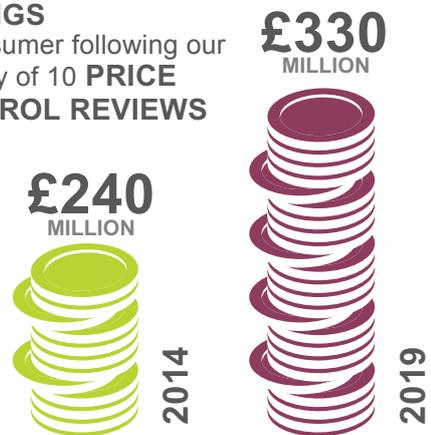
Increase in number of **GAS CONNECTIONS**



The **NEW WHOLESALE ELECTRICITY MARKET**, the ISEM, went live on 1 October 2018



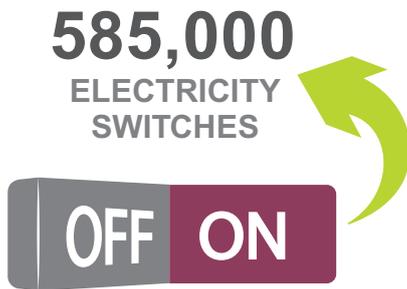
SAVINGS to consumer following our scrutiny of 10 **PRICE CONTROL REVIEWS**



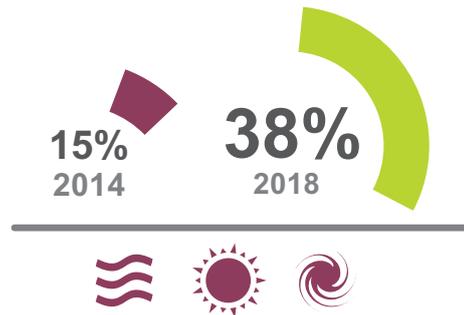


While progress was made across all targets, we have included new commitments on network regulation in our new corporate strategy.

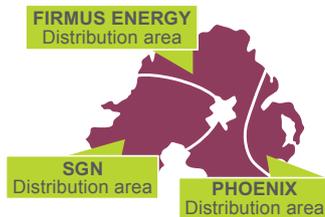
The volume of consumer supplier **SWITCHING HAS INCREASED DRAMATICALLY** since 2010



INCREASE in proportion of electricity **GENERATED FROM RENEWABLES**



GAS NETWORK EXTENSIONS continued west of the Bann and East Down with homes and businesses connecting to gas



Advocated for the second **NORTH-SOUTH ELECTRICITY INTERCONNECTOR**



New codes of practice to **PROTECT CONSUMERS** were introduced in –



Development and implementation of **CONSUMER PROTECTION STRATEGY**, focused on **VULNERABLE CONSUMERS**

5 Background to developing our corporate strategy

The starting point for our new strategy was to consider the background and key issues, developments and trends. A series of workshops with our key stakeholders helped shape our thinking. Eight key areas are presented which together represent key strategic drivers influencing our new strategy.

1. The energy transition

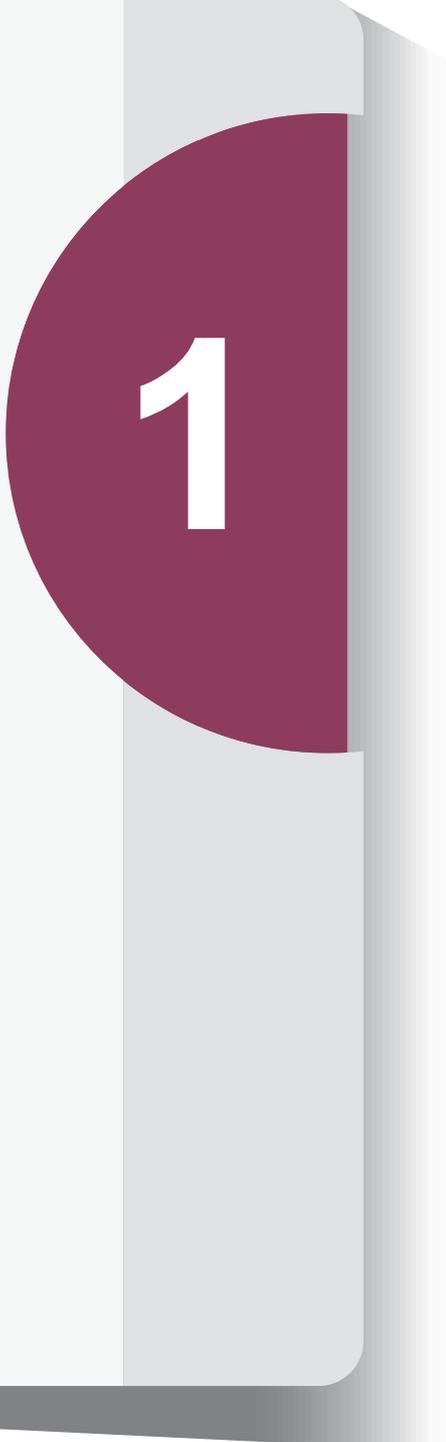
An energy transition is underway with key drivers being decarbonisation and technological change.

Decarbonisation is one of four 'Ds' that together represent the energy transition. The *decentralisation* of electricity networks will create less of a distinction between transmission and distribution and greater role for distributed generation. Distribution Network Operators (DNOs) in this system will move towards a Distribution System Operator (DSO). *Democratisation* will increase the number of electricity suppliers and associated services and may prompt, for instance, the rise of community-based enterprises self supplying energy using 'blockchain' technology.

Technological innovation and *digitisation* will drive increased consumer activity and disruptive energy technologies will drive significant changes for networks companies. Electric vehicles and the decarbonisation of domestic heat could both place additional demands on the electricity network. The injection of renewable sources of gas will also need to be considered for gas networks.

For regulators there will be governance challenges with the new range of potential players (as well as building trust with consumers). Adapting to change (such as through facilitating innovation) will also be a key issue. Supporting consumer empowerment remains a priority. Technological and social change is driving consumer choices about utility services.

Increasing numbers of consumers will also produce (or generate in relation to energy) – the 'Prosumer'.



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2. Future energy and water policy and strategies

Two major uncertainties potentially impact on our ability to deliver key outcomes during our new corporate strategy period. Firstly the absence of a Northern Ireland Executive will impact on the energy and water framework within which we operate. Secondly, the ongoing uncertainty around the terms of the UK's departure from the EU may have negative impacts. The UK's departure from the EU brings uncertainty in respect of electricity and gas markets. In particular there is uncertainty over the continued membership of the EU Internal Energy market by the UK.

In energy the Department for the Economy's Strategic Energy Framework comes to an end in 2020. A new policy framework will need to provide direction on areas such as renewables (particularly in the context of the EU's Clean Energy Package), electricity and gas network infrastructure planning and the facilitation of new technologies (e.g. energy storage).

In water, the Department for Infrastructure has set out a Long-Term Strategy for water which covers areas such as leakage and water quality.



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3. Utility services and consumers

Consumer expectations of the service provided by utility companies will continue to change. Consumers today see utilities as a service like any other. Meeting consumer expectations require more customised, personalised services.

The key premise of the ‘utility-as-a-service approach’ is that we can design utility services by choosing a utility business that best delivers our needs and sources the best supplier and equipment.

Of course, it is not just that utility services will have to innovate or be creative, they will also have to ensure that they make sure that these essential services are well-maintained and fit for the future.

In all of this, ongoing technological innovation is key, allowing consumers to engage with, and make choices on, service use. A good example is the heating system applications that are becoming more popular, enabling the ability to remotely activate or control temperature.

This will require greater engagement by utility companies with customers to ensure that their service meets expectations. We have been facilitating greater engagement between regulated companies and their customers (such as on the NI Water PC15 price control).





4. Competitive markets

While part of the debate around the operation of utility markets is framed by the outcome for consumers, there is a broader question of promoting effective competition.

The new SEM wholesale energy market (the ISEM), went live on 1 October 2018 and provides a more competitive market that should place downward pressure on prices. We reviewed the effectiveness of our retail energy market in 2017 and implemented changes to promote competition and the effective operation of the market.

The new SEM market has already introduced competition for capacity and we will see the first longer-term capacity auction take place during 2019 alongside the annual auctions. These auctions will provide assurance around security of supply and the competitive process should reduce costs. We will also be working to introduce secondary trading into the capacity market as well as expand the opportunities for intermediaries to operate in the market as a whole. This work will further build on competition in the market and create opportunity for investment and bring benefits to consumers.



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5. Fairness and consumer outcomes

There is much discussion on the effectiveness of competition and consumer outcomes in regulated markets.

There is a view that markets have not delivered consumer-focused outcomes, especially for vulnerable consumers. Northern Ireland has the highest level of fuel poverty in the UK.

We have been focusing, through our Consumer Protection Strategy, on practical initiatives to support vulnerable customers such as when they go off-supply. Protecting the most vulnerable, by ensuring that they can access the best price deals and quality of service outcomes, is key.

There is also some evidence of consumer disengagement from energy retail markets. A high proportion of these disengaged consumers are likely to be vulnerable consumers who do not, or cannot, avail of opportunities to seek lower tariffs or more customised services.

The debate about fairness and consumer outcomes is reflected in the Department of Business, Energy and Industrial Strategy's 'Modernising Consumer markets' White paper, published in April 2018. Separately, the Consumer Council for NI has outlined a series of consumer principles used to assess the consumer interest.

Preventing abuse of market power in wholesale and retail energy markets is a key success measure for market monitoring regimes.



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6. Supporting renewables

The Paris Climate Accord 2015, the EU's Clean Energy Package and the UK government's Clean Growth Strategy all set a strategic direction for energy and renewables.

Key focus areas for the Clean Energy Package include a drive to support energy efficiency initiatives and utilising innovative technologies to support the growth of renewables.

A key question going forward relates to setting targets for renewables in Northern Ireland beyond 2020. There is also the question of how additional renewable generation can be accommodated on the system which has seen significant progress through the SEM DS3 initiative. Finally, there is the challenge of funding renewables in the least cost way while providing opportunities to support new technologies.

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7. Security of supply

For all utility areas the need for a secure and reliable supply remains.

In electricity the capacity arrangements in the SEM provide a basis for managing long-term security of supply risks. The construction of a second north-south electricity interconnector remains a key issue. In gas, finalising a transportation agreement to facilitate the reliable supply is essential. In water, there also remains the challenge of ensuring a reliable supply.

The Department for Infrastructure's Long-Term Water Strategy is focused on security of supply.



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8. Regulatory approach

Given the change that is coming, particularly in energy, continued uncertainties and increasing expectations from stakeholders, it is clear that there are future challenges for regulators.

The traditional model of economic regulation in the UK emphasises predictability. There is every prospect that societal change, technological developments and a more empowered consumer will, however, prompt regulators to adjust their approach. For regulators, the challenge is about staying ahead of consumer expectations and more generally anticipating the changes that are required.

In practice this may mean that regulators are less prescriptive, more pragmatic, focussed more on principles and outcomes, adopt new approaches to accommodate innovation and a more diverse stakeholder environment. This approach positions regulators more as enablers (e.g. to facilitate major infrastructural projects) with perhaps a greater emphasis on making connections between stakeholders.



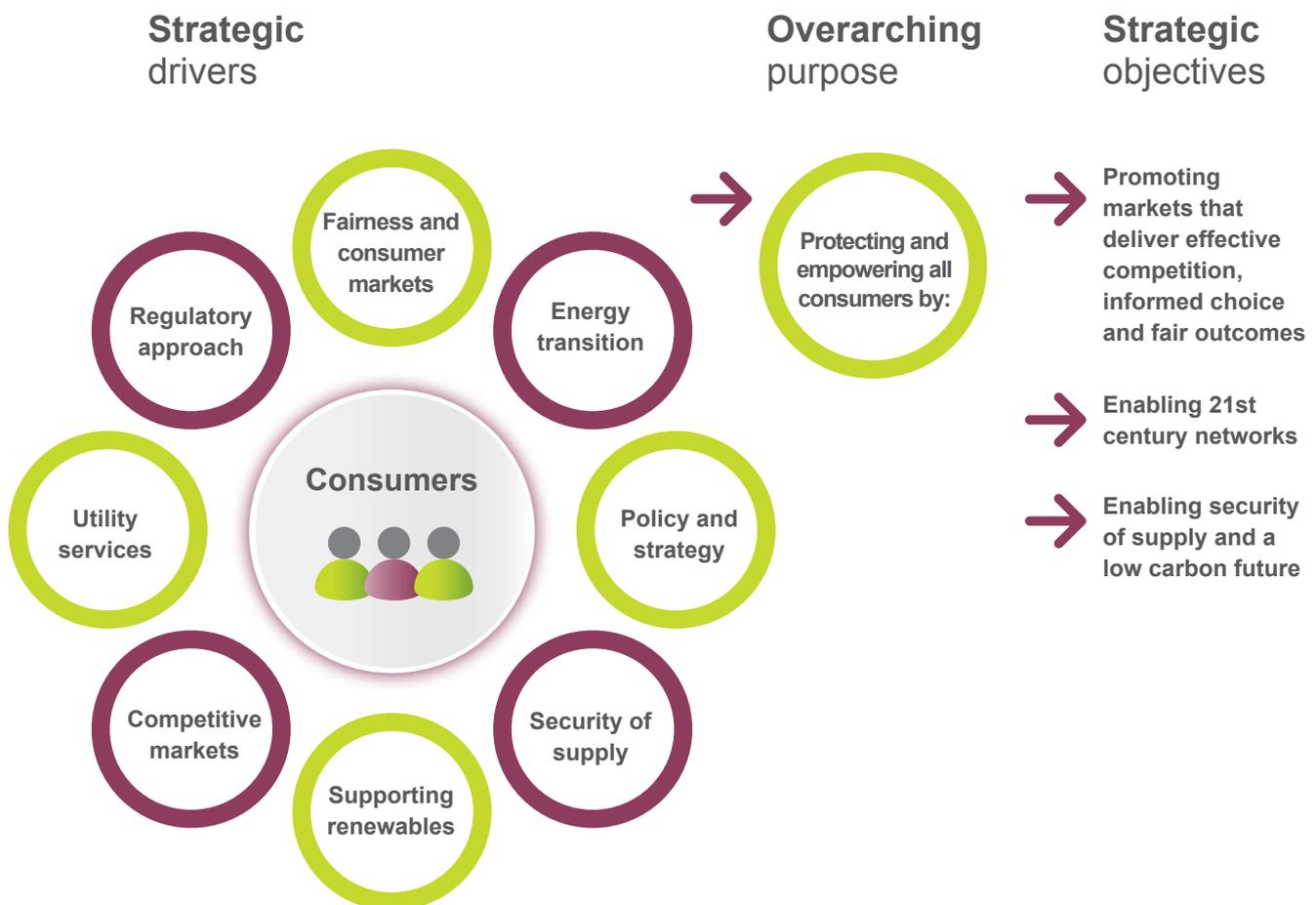
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6 Setting out our corporate strategy 2019-2024

Having considered progress against our corporate strategy, assessed the strategic background and listened to the views of our stakeholders we believe that we need to set a new strategic direction.

There are areas from our previous strategy where we think there is a further opportunity to make a difference during a new strategy period (such as around enhancing networks for the future). It is clear that we also need to embrace change (such as around the energy transition). As a regulator we recognise that some of this change requires us to assess how we might enable positive change for all energy and water consumers.

We set out the basis of our draft strategy below with strategic drivers influencing an overarching purpose and three strategic objectives. Each of the three strategic objectives are then described in more detail later in this section.

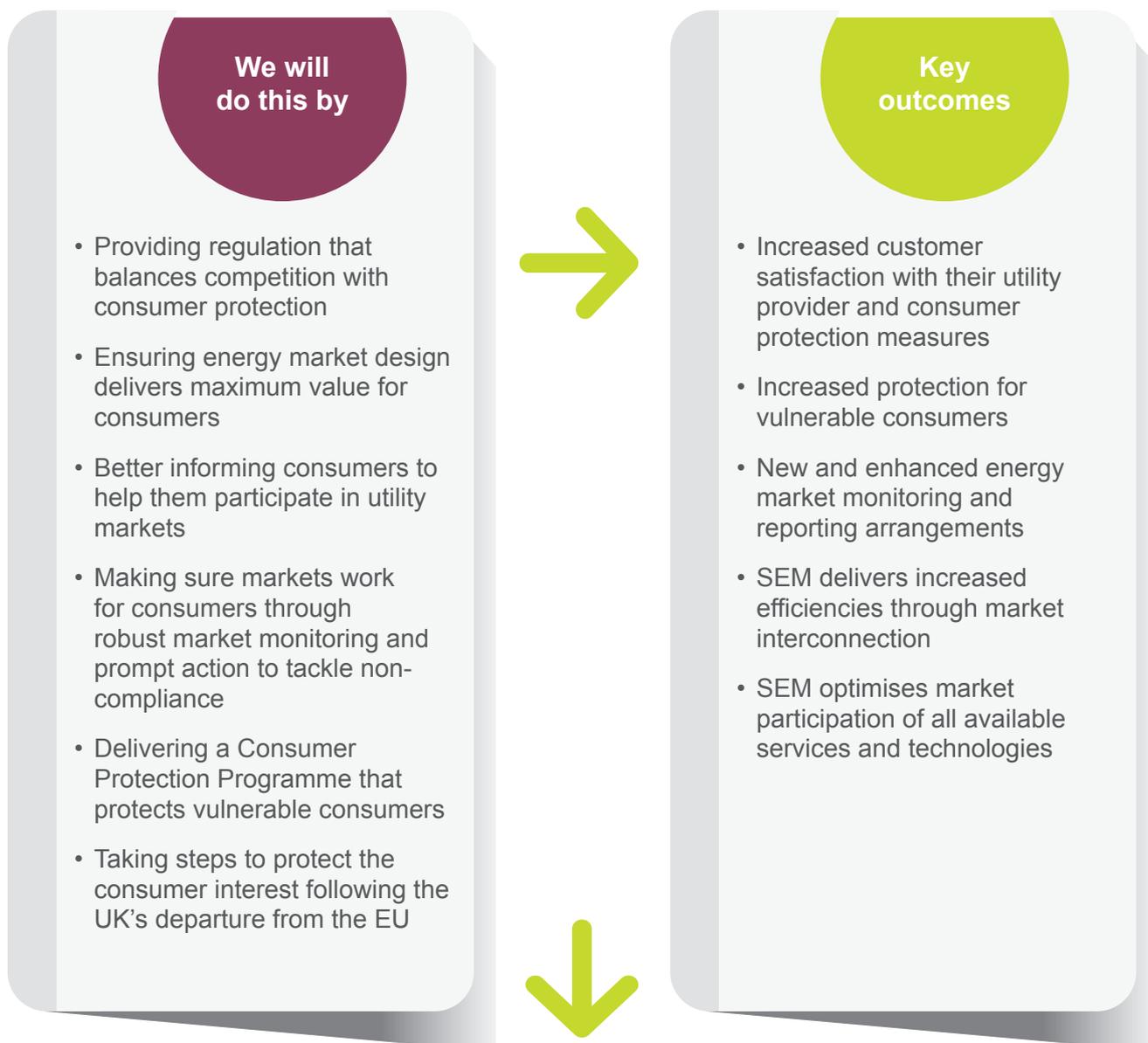


Starting with the consumer is paramount and consumer needs will be at the centre of our strategy. By placing the consumer at the centre this can help us focus on outcomes for consumers from utility markets. Consumers should also expect that network utilities will enhance their customer focus while preparing for future change and challenges. Finally, consumers expect that their supply of energy or water will be secure and that there will be a clear roadmap which enables a low carbon future.



Protecting and empowering all consumers by:

Strategic objective 1: Promoting markets that deliver effective competition, informed choice and fair outcomes



Key success measures

1. % of customers who trust and are satisfied with their energy supplier
2. % of customers who are satisfied with consumer protection arrangements in NI
3. % of customers who are satisfied with the switching process
4. Enhanced market analysis and monitoring in place facilitating consumer protection, assurance of compliance and enabling enforcement as necessary
5. Increased efficient deployment of interconnector flows evidenced by harmonisation across the interconnectors between GB and the SEM
6. Efficient wholesale energy prices that benchmark favourably with comparator markets
7. Consumer Protection Programme priority projects are delivered

Protecting and empowering all consumers by:

Strategic objective 2: Enabling 21st century networks



Key success measures

1. All network utilities deliver asset management strategies and long-term network development plans
2. Innovation plans are delivered as part of price control reviews
3. Price control reviews improve services and save money for consumers
4. A review of electricity network tariffs is completed
5. Over 300,000 gas customers connected to the natural gas network
6. Best practice guaranteed standards of service are introduced for energy companies
7. Cost and performance reports are published for all network utilities



Protecting and empowering all consumers by:

Strategic objective 3: Enabling security of supply and a low carbon future



Key success measures

1. Facilitate investment in low carbon technologies
2. Facilitate the delivery of the second north-south interconnector
3. A new transportation agreement to ensure access to GB gas supply after 2021
4. Along with the Department for the Economy, Clean Energy package requirements are met by 2024
5. Sufficient generation is secured to meet demand through the SEM Capacity Remuneration Mechanism

7 Delivering our strategy

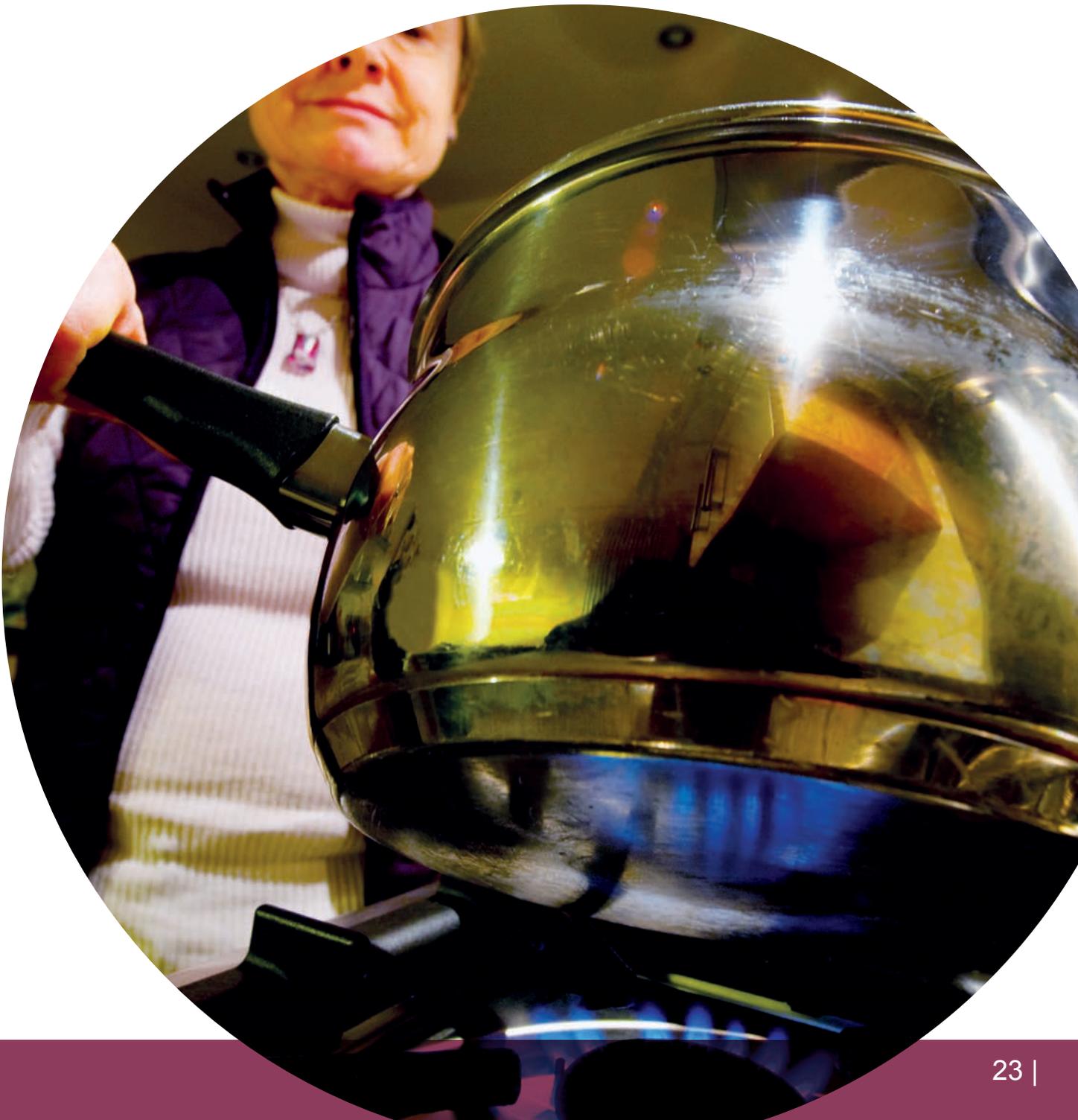
In delivering a new strategy we recognise that there are challenges for us as an organisation. Our stakeholders have emphasised the significance of our role and our regulation in delivering some of the transformative energy and water agenda items in the medium- to long-term. We recognise that we are on a journey towards best practice regulation and that **our regulatory approach** is therefore key. This may mean that we become more aware of, and responsive to changing expectations, and position ourselves much more as an enabler in delivering a transformative agenda.

In driving this new approach we also underline the importance of **our external communications**. A new communications strategy will see us develop our digital channels to share information more widely and in a more accessible format.

Delivering our strategy: key enablers



Finally, by continuing to **support the development of our people**, this can facilitate the delivery of our strategy. We received Investors in People accreditation in 2018 and will be advancing further actions to help us support the development of our staff. This action plan will focus on helping us support a culture of continuous improvement, improve how we manage performance, taking steps to allow us to embrace change and improving how we recognise and reward our staff.





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