

NIE Networks

Proposed Licence Modifications

Notification Paper

28 June 2016



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Network Regulation; Wholesale and Retail Markets.

Our Mission

Value and sustainability in energy and water.

Our Vision

We will make a difference for consumers by listening, innovating and leading.

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.

Abstract

The key elements of this notification relate to licence modifications proposed for the introduction of a term into the NIE Networks distribution licence for the purpose of raising funds for the Department for the Economy's EnergyWise scheme. The term will be known as the EW term and it is proposed that its effective date will be 1 October 2016.

Audience

All those who responded to the Department for the Economy's (the Department's) consultation entitled "EnergyWise Scheme Proposals". (This consultation was published in cooperation with the Utility Regulator (UR) on the Department's website on 17 May 2016, a link to the paper was also placed on UR's website. Responses to the consultation were shared with UR and helped to inform this notification paper.) All electricity suppliers and groups representing electricity customers may be interested in this notification.

Consumer Impact

The proposal is for an increase in NIE Network's distribution use of system (DUoS) charges for the purposes of raising funds to contribute to the Department's EnergyWise scheme. While this will result in an increase in tariffs it should also:

- improve energy affordability for those domestic customers that receive measures from the Department's scheme;
- improve security of supply, as by using less energy we also need to import, transport and generate less energy; and
- help Northern Ireland to meet a number of environmental targets in relation to carbon reduction, energy efficiency and renewable energy.

Note: the increase in DUoS charges for the purpose of funding EnergyWise is in the context of a reduction in PSO due to the end of funding for NISEP.

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The Department for the Economy's EnergyWise Consultation

Background

The Department for the Economy (the Department) is proposing the implementation of a new energy efficiency scheme, known as EnergyWise. Under the EnergyWise scheme the Department will provide assistance primarily in the form of grants and/or other funding which will be given to, or for the benefit of, eligible domestic consumers to enable those consumers to install energy efficiency measures. At this time the Department has stated that EnergyWise will be for domestic customers only.

The Department considers that the implementation of the EnergyWise scheme is consistent with both the Department's and the UR's principal objectives and duties as they relate to energy. Therefore the Department asked the UR to work with it in relation to the funding mechanism for the grant element of the scheme. In this regard the Department's role is to develop the policy and technical design of the EnergyWise scheme. The UR's role is in relation to the implementation of a licence modification in the NIE Networks distribution licence, such modification is for the purpose of facilitating a contribution of a forecast £8m per year (1 April – 31 March) for three years towards the grant element of the scheme and some administration costs. The Department will monitor the progress of the EnergyWise scheme each year and will inform UR of the funding required, such funding is not expected to exceed £8m in any period dating 1 April – 31 March in a given year. UR will then approve the collection of the funding from NIE Networks distribution use of system charges (DUoS).

The UR agrees that the objectives of the EnergyWise scheme are consistent with its duties and principle objectives. Therefore we have agreed to issue this notification on a proposed modification to the NIE Networks distribution licence.

Representations made following this notification will be considered by UR and will also be shared with the Department. If the Department directs UR not to make the modification contained in this notification then UR will comply with the direction.

Funding mechanism

The Department, with the cooperation of UR issued a consultation on the EnergyWise scheme and the options for funding the scheme on 17 May 2016. A link to the consultation was also placed on the UR's web site and all responses to the consultation were shared with UR.

The Department's EnergyWise consultation paper gave a general overview of the proposed EnergyWise scheme. The consultation paper also focused on the mechanism for cost recovery:

- **Option 1** – the cost of EnergyWise is recovered from domestic electricity customers only;
- **Option 2** – the cost of EnergyWise is spread across customers in the domestic and combined business and residential customer categories; and

- **Option 3** – the cost of EnergyWise is spread across all customers connected to the electricity distribution network.

Table 1 below shows the estimated impact of the different options based on one full year of EnergyWise costs of £8M. Please note for the NIE Networks distribution tariff year commencing 1 October 2016, it is proposed to recover £4m (half of the first year of EnergyWise).

**Table 1 based on
£8m per annum**

Market Sector	Average Customer Numbers	Option 1	Option 2	Option 3
		Increase in Avg DUoS Bill	Increase in Avg DUoS Bill	Increase in Avg DUoS Bill
		£	£	£
Domestic	787,606	£ 10.16	£ 9.68	£ 3.78
Combined Resid/Bus	7,489		£ 50.51	£ 19.71
SME <70kVA	57,006			£ 19.91
SME >70kVA	4,918			£ 412.03
LEU >1MW	185			£ 8,594.89

The consultation closed on 10 June 2016, 45 responses were received from a wide range of stakeholders.

Many responses said that it is important that there is no gap between the EnergyWise scheme and the existing NISEP scheme. Reasons stated included the impact on energy services supply chains (and therefore on Northern Ireland's long term ability to deliver energy savings) and on vulnerable customers at risk of the effects of fuel poverty. In light of this some respondents called for the extension of the NISEP to allow more time for development of EnergyWise and ensure there would be no gap. Many responses called for more information on the detailed design of the EnergyWise scheme.

In response to the consultation question about whether all fuel types should contribute to EnergyWise; the majority of respondents supported the collection of funding only from electricity customers at this time, but again many of these respondents asked for further detail on the design of the scheme.

Some respondents felt that the funding should be collected from electricity customers via the PSO, rather than the DUoS charge as is proposed. These respondents felt that the PSO may be a more transparent way of showing the impact of the cost of EnergyWise.

In relation to the options for funding the scheme: 18 respondents supported Option 3 (all customers), 10 supported Option 1 (domestic only), 2 respondents had Option 2 as their preferred choice and 15 respondents did not pick an option. Most of the respondents who did not pick an option and many of the respondents who did pick an option said that their preference was dependent on the detailed design of the EnergyWise scheme. The Department will engage further with stakeholders in due course. A summary of the arguments put forward by respondents in relation to the funding options is shown below:

Option 1 Domestic Customers Only	Option 3 All Customers
<ul style="list-style-type: none"> 1. Business customers won't benefit so why should they pay. 2. NI's high energy costs to business customers and manufacturers needs to be addressed. 3. Business customers provide jobs, which is the best way to address fuel poverty. 	<ul style="list-style-type: none"> 1. All customers benefit from increased fuel security and environmental benefits such as reducing carbon. Therefore all customers should pay and costs should be spread as widely as possible. 2. Polluter pays principle – larger users should pay more. 3. Equality concerns around shifting the costs to potentially vulnerable domestic customers such as the disabled or older people. Often the most vulnerable are higher energy users because of their specific needs. Also, concerns that they will not be able to benefit from EnergyWise. 4. Concerns around shifting the costs to the fuel poor and a feeling that large customers are in a better position to absorb increased costs. Would like to see ring-fence of funding for fuel poor (similar to 80% in NISEP). 5. The principle of only customers who benefit

	should pay does not lead to a decision that only domestic customers should pay because not all domestic customers will benefit from the scheme e.g. domestic customers earning less than £20,000 and who are eligible for Affordable Warmth will not benefit but will pay.
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During discussions with NIE Networks, the company stated that customers should not be asked to take any volume risk associated with EnergyWise. That is to say that the per kWh charge passed on to customers in respect of Energywise will be based on forecast volumes. Where actual volumes are different from forecast the Department should manage the risk that the amount of funding received for EnergyWise may be higher or lower than the amount forecast.

UR comments on responses and proposed licence modification

In response to those respondents who called for an extension of the NISEP, the UR has sought and received assurances from the Department that the EnergyWise scheme will be up and running on time. There are no plans to extend the NISEP beyond 31 March 2017.

In response to those respondents who asked for more detail on the design of the EnergyWise scheme, the UR has continued to engage with the Department. The Department will continue to engage with stakeholders to ensure the new scheme is effective.

In relation to those respondents who felt that the PSO was more transparent than the DUoS charge as a means of recovery, the UR considers that DUoS is more appropriate. We are committed to ensuring that the EnergyWise element within DUoS and the impact of EnergyWise on DUoS tariffs is transparent and identifiable and will work with NIE Networks to ensure that this is the case.

In relation to the preferred funding option, the Department will advise UR of the preferred funding option taking into consideration the detailed design of the scheme and equality screening.

In relation to NIE Network's point that consumers should not carry any volume risk associated with EnergyWise, the Department and UR have agreed that the Department will manage this risk and that therefore the EnergyWise term shall be excluded from the calculation of the price control correction factor (K).

The UR proposes to modify Annex 2 of the NIE Networks Distribution licence in order to allow the distribution use of system charge to be increased for the purposes of funding the Department's EnergyWise scheme. Such funding shall be passed from NIE Networks to the Department for the purpose of providing energy saving measures in domestic properties in Northern Ireland.

The effect of the modification will be to increase the amount recovered via the distribution use of system (DUoS) charge by £8m per financial year (that is year: 1 April – 31 March). As the NIE Networks tariff year runs from 1 October each year for the tariff year commencing 1 October 2016 the amount will be £4m.

The Licence Condition will be in place for 3 years after which there will be a further review and potentially a further licence modification.

Based on the Department's advice about the required funding each year, the UR will provide NIE Networks with a direction each year which will advise NIE Networks of the amount to be collected and the manner in which it is to be collected. Therefore both the amount to be recovered and the customer groups can be kept under constant review. This will allow monitoring of the ongoing EnergyWise scheme to be taken into consideration.

The reason for the proposed modification is to facilitate energy savings in the domestic sector. Energy efficiency is an objective of the UR and is consistent with the requirements of a number of EU Directives including the IME3 package of Directives and the Energy Efficiency Directive. The EnergyWise scheme will be designed so as to assist consumers to reduce their consumption of electricity. Such a reduction in consumption will assist in ensuring security of supply as it makes it more likely that all reasonable demands for electricity (in Northern Ireland) can be met. Reducing consumption is the equivalent of bringing on more generation (production) of electricity. It is in essence a demand side measure

which therefore serves the purpose of securing that all reasonable demands are met. Reducing energy consumption also reduces carbon emissions. The reduction of consumption also means lower bills and warmer homes for those who benefit from the energy efficiency measures. This is in itself a consumer benefit for that category of consumers, which can be offset against the increases in price.

An initial draft of the proposed modification is included in Annex 2 of this paper. A formal notification under Article 14 (2) of the Electricity Order is included in Annex 1 of this paper.

Representations in respect of the modifications may be made in writing to the Utility Regulator on or before 5.00 on 26 July 2016

Representations may be emailed to alisonfarr@uregni.gov.uk or posted to

Alison Farr

Utility Regulator

Queens House

14 Queen Street

Belfast BT1 6ED

Representations sent by post must be received by UR before 5.00 26 July 2016.

All representations received will be shared with the Department.

Section 75 of the Northern Ireland Act 1998

Both the Department and the Utility Regulator have a number of obligations arising from section 75 of the Northern Ireland Act 1998. These obligations concern the promotion of equality of opportunity between:

- (a) persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- (b) men and women generally;
- (c) persons with disability and persons without; and
- (d) persons with dependants and persons without.

We must also have regard to the promotion of good relations between persons of different religious belief, political opinion or racial groups.

As the policy lead in relation to EnergyWise the Department will be responsible for carrying out the appropriate equality screening. The Department will share the results of its equality screening with UR.

Annex 1

Notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992

THE NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION NOTICE UNDER ARTICLE 14(2) OF THE ELECTRICITY (NORTHERN IRELAND) ORDER 1992 (AS AMENDED)

MODIFICATIONS PROPOSED TO THE ELECTRICITY DISTRIBUTION LICENCE HELD BY NORTHERN IRELAND ELECTRICITY NETWORKS LIMITED

The Northern Ireland Authority for Utility Regulation (hereafter referred to as “the Authority”) hereby gives notice under Article 14(2) of the Electricity (Northern Ireland) Order 1992 (as amended) (hereafter referred to as “the Order) as follows:

1. It proposes to make modifications to the electricity distribution licence (the “Licence”) held by NIE Networks Limited (the “Licensee”).
2. The proposed modifications are to the Transmission and Distribution Charge Restriction Condition set out in Annex 2 of the Licence. The proposed modifications are shown in Annex 2 as set out below.
3. The effect of the proposed modifications will be to alter, by way of an increase, the total amount of revenue that the Licensee can recover, in relevant years 2017 to 2020, in respect of its electricity distribution business and for the additional revenue collected as a result of the increase (other than that element which relates to the licensee’s administration costs) to be paid to the Department for the Economy (or its authorised agent). The EnergyWise amount shall not be included within the correction factor.

4. The reasons for the proposed modifications are to provide for the funding of the Department for the Economy's EnergyWise energy efficiency scheme. The EnergyWise Scheme facilitates:
 - a. Delivery of energy savings .
 - b. Improved security of energy supplies (as less energy is consumed this improves security of supply)
 - c. Improved affordability for those customers who avail of energy efficiency measures.
 - d. Reduced carbon emissions associated with energy savings.
 - e. Reduced energy consumption makes it easier to reach Northern Ireland's renewable energy targets where these targets are expressed as a percentage of energy consumed.

5. Representations with respect to the proposed modifications may be made on or before 5pm on 26 July 2016 to:

Alison Farr
Utility Regulator
Queens House
14 Queen Street
Belfast BT1 6ED
Email: alison.farr@uregni.gov.uk

6. The Authority has, in pursuance to Article 14(4)(b) of the Order sent a copy of this notice to the Licensee, the Department for the Economy and the General Consumer Council for Northern Ireland.

Dated this 28 June 2016



Jenny Pyper

For and on behalf of the Northern Ireland Authority for Utility Regulation

Annex 2 Proposed Licence Modification

The following to be added to Annex 2 – Distribution Charge
Restriction Conditions

1. Definitions

“EnergyWise Programme”

means the energy efficiency programme, known as EnergyWise and administered by the EnergyWise Programme Sponsor, which is designed to promote energy efficiency measures and / or the use of renewable technologies.

EnergyWise Programme Sponsor

means the Department for the Economy or any agent authorised and appointed by the Department.

The term + EW_t is to be added to which ever formula is in place in NIE Network's licence on 1 October 2016.

Example based on RP4

$$M_{Dt} = \min (PC_t, CPA_t) - PPS_t + COL_t + D_t + NSI_t + K_{Dt} + EW_t$$

EW_t means the EnergyWise amount, calculated in accordance with paragraph 13 below

K_{Dt} means the correction factor (whether a positive or negative value) to be applied to the maximum core revenue in relevant year t which is derived from the following formula:

$$K_{Dt} = ((M_{Dt-1} - EW_{t-1}) - (R_{Dt-1} - EW_{t-1}))(1 + I_t/100)$$

where:

M_{Dt-1} means the maximum core revenue in relevant year $t - 1$;

R_{Dt-1} means the regulated transmission and distribution revenue (other than the Moyle revenue which is attributable to the financing and other costs associated with the Moyle Interconnector, as referred to in the definition of the term $CAIR_t$ above) in relevant year $t-1$; and

I_t means the average specified rate.

13. The EnergyWise amount - EW_t

13.1. The EnergyWise amount (the EW_t term) means an amount to be collected by the licensee in each relevant year, by means of an additional charge in its Distribution Charges, in respect of:

- (a) the costs of the EnergyWise programme; and
- (b) the costs of the licensee in recovering the costs of the EnergyWise Programme,

as calculated in accordance with paragraph 13.2.

13.2. In each relevant year $t = 2017$ to $t = 2020$, the licensee:

- (a) shall recover an amount that the Authority may from time to time specify for that relevant year t in a direction issued to the licensee; and
- (b) may recover any costs:
 - (i) reasonably incurred by the licensee, in the relevant year t , in complying with the requirements of this paragraph 13; and
 - (ii) approved by the Authority in respect of the relevant year t .

- 13.3. The licensee shall pay all amounts collected pursuant to paragraph 13.2(a) to the EnergyWise Programme Sponsor.
- 13.4. The EW_t term shall at all times be presented and set out separately in the licensee's Distribution Charges.