



Caspar Swales
Head of Economics and Efficiencies (Finance and Network Assets)
Utility Regulator
Queen's House
14 Queen Street
BELFAST
BT1 6ER

19 May, 2017

Dear Casper,

RE: MNI Response to the RP6 Price Control Draft Determination

Manufacturing NI are pleased to be asked to respond to the Northern Ireland Electricity Networks Ltd Transmission and Distribution 6th Price Control (RP6) draft determination.

MNI does not have any direct involvement with the energy industry – they are not members, do not sit on Committees or Boards and provide no financial support. This allows us to freely contribute to this and other consultations without being unduly influenced by the sector.

We do however engage with NIEN and other energy firms, Regulators but more particularly customers and consumers. This allows us to have the widest possible view whilst ensuring we have true independence in our responses.

Manufacturing is the beating heart of the Northern Ireland private sector economy directly and indirectly contributing almost £10bn to GVA, almost £7bn in exports, dominates R&D spend while directly employing 85,000 people with a further 129,000 in supported jobs meaning 1 in 4 families in Northern Ireland rely on a manufacturing wage.

Whilst the sector has been performing well, it faces hugely significant challenges brought on by geography, UK and NI policy and now Brexit. This means the need for cost competitiveness has never been more sharply in focus.

Oxford Economics, in its report published in March 2016 on Manufacturing and the NI Economy, stressed that *"... reduced competitiveness of the sector puts at risk the thousands of jobs and livelihoods that the manufacturing sector supports in communities across the region."* However, they also confirmed that *"... when manufacturing grows, the whole economy grows with it"*. It is the responsibility of policymakers, industry and economic regulators to ensure that we secure positive economic growth for the region but improving business competitiveness.

Manufacturing Northern Ireland is a not-for-profit trade association incorporated as a Company limited by guarantee in Northern Ireland. Registration Number: 073892

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For most manufacturers, energy is their 3rd largest input cost. For some, their bills are larger than their payroll and bills can reach many millions of pounds per annum. These employers endure, as is continually evidenced by the Regulators own published analysis, some of the highest prices in Europe and prices that are 15-20% higher than competitors (and indeed some sister plants) in the Republic of Ireland with whom we share a single all-island wholesale market.

The Utility Regulator and policymakers in DfE highlight that they have limited levers available to curb the excesses of these cost. However, Price Controls are one clear mechanism available to ensure customers today and in the future are not saddled with ongoing, excessive costs whilst energy firms themselves enjoy significant, guaranteed profit. The Regulator should note, regardless of the author or metric used, that NIEN (and indeed other energy firms) are consistently amongst the most profitable companies in Northern Ireland.

It is in this context that MNI are pleased to see the overall output from their Draft Determination is a marginal fall in network charges for consumers over the life of RP6. At this point, **we would urge the Regulator to remain firm in maintaining this position when considering consultation responses and amendments in its Final Determination at the end of June 2017.**

Given the starting point for this Price Control was a model developed from the CMA Final Determination on RP5, we are content that the Regulator has provided sufficient rationale, analysis and funding for NIEN to be financeable, provide investment on the network and incentive to operate a safe, reliable and sustainable network for now and into the future. Indeed the company's own analysis is that the network remains in good condition so sufficient funding levels (to operate the company and capex investment) are met, in our view, in the Draft Determination.

The above 2 comments are important to consider given the explicit outcome from NIEN's customer engagement which reported that 3 out of 4 business customers believe that NO additional funding should be provided.

Below we offer some additional comments for consideration.

RIGS

We understand that NIEN have now produced RIGS for the first 4 years of RP5. This, by now, should give a strong indication of costs and outputs. We believe it is in the interests of consumers that a deep analysis of these RIGS is completed to ensure transparency in costing and funding levels in RP6. Of particular concern is Indirect Capex costs. It is our understanding that whilst NIEN are expecting to come under budget on pure capital costs, they are expecting to significantly overshoot their allowance in RP5 on these indirect costs.

For consumers, this offers significant risk so there is an urgent need for the Regulator to provide confidence that the company is as efficient as possible in these indirect areas. We do not accept that a Totex figure is more relevant whilst there is such a significant overspend on indirect costs.

We would seek a commitment from the Regulator that Indirect Capex costs are strongly audited to ensure that Opex costs are not being capitalised in NIEN's accounting (now and in the future) and that value for money is assured.

Deferral

Relating to the above, MNI remain very concerned about the investment levels (already being collected through customer bills) for RP5 capital projects will not be met or that there is significant deviation from the budgeted figures, provided by the CMA, of up to £32m as highlight in the Draft Determination.

We do not believe that the potential for the company to 'suffer' "Reputational Risk" is a sufficiently robust means to ensure delivery and value for money. We would seek a stronger penalty mechanism to be put in place.

D5

Whilst we note the Regulator anticipates that there would be a slight reduction in overall network costs for consumers from this Price Control, when D5 investments are excluded from calculations. We are very concerned that the company has not provided a sufficiently well-developed analysis of potential costs on these projects and at this point the Regulator has only taken a view on what these potentially could be.

As a starting point, we believe that the overall final settlement should not add any additional network costs to bills so would seek a commitment in this Price Control that should these project over-shoot the estimated £200m figure used by the Regulator that this money is recovered elsewhere in budgets to guarantee no additional network costs.

Customer Engagement

MNI have already engaged with both the company and the Regulator and made it known we did not believe the Consumer Engagement process leading to the NIEN business plan was satisfactory. From our point of view, the process was largely designed around confirming the company's view on what investments were needed rather than an open discussion which led to addressed consumers concerns or needs from the network. Certainly what was discussed in some workshops panels simply didn't make it into the business plan, whereas areas of little or no concern were retained.

Whilst we welcome the requirement for engagement, we believe that any ongoing process and particularly a process which leads to the next price control should be reviewed and improved.

Transparency

Having said the above, there was a significant increase in transparency brought about by this consumer engagement process. This included more documentation which was digestible for consumers. This journey to greater transparency is very much welcomed as it can help increase consumer confidence in the company.

In many ways this follows through in the content and style of the draft Price Control. However, we do believe it would be fair on both consumers and the company for the Regulator to offer a deeper explanation for decisions to refuse certain investment proposals from the company. This would assist in allowing consumers to understand the process and justification for such as decision.

33kv Investment

The Regulator will know that MNI alongside Powerhouse Generation have, despite attempts to avoid the need, launched a formal dispute for resolution against NIEN on their treatment of demand side units. We believe the company's approach to be anti-competitive at worst with some customers feeling confused and deeply worried by communications from NIEN.

NIEN has suggested that investment in this Price Control 'could' overcome these issues. It is our view that this is an inappropriate position for the company to take. So, we believe that it is essential that the Regulator takes action to come to a conclusion on our dispute prior to confirming its final RP6 determination.

Customer Service

Through the process leading to our formal dispute which the Regulator is now being asked to resolve, MNI has uncovered significant administrative, due diligence and customer service deficiencies within NIEN which has led to significant worry within the relevant customer base. We would ask that this should be addressed in their performance indicators through RP6.

Low Carbon Technology

The mid-term review of the SEF has yet to be published, however there are significant factors in UK and NI policy and indeed reports from the Department for the Economy which show that there will be no support mechanisms for some LCT generation in the short and medium term. On that basis, we are unclear why there would be a need for funding in this area.

We would also point the Regulator to annual reports from the Department for Infrastructure on the take-up and attitude towards electric vehicles. Customer demand and likelihood to purchase in the future consistently remains extremely low (c1%). We believe this would be a useful metric for the Regulator to assess the need for investment in this area.

Innovation

Manufacturers more than most understand the value of innovation and as such we would be generally supportive of plans to find new approaches which lead to reducing financial demands in the future. However, we would be concerned that guaranteeing 100% of the income through the Price Control would not encourage the company to work alongside others to access alternative sources of funding which would remove the funding burden from the consumer.

Theft

We agree that no additional incentive is required, as yet, for NIEN in this area. There is already very significant benefit through the Meter Replacement Programme and the ongoing work on Code of Practice allows the company to suggest other actions. Regardless, these should be cost beneficial for the consumer rather than the company.

Pass-Through for Rates

In no other part of business (nor indeed domestic budgeting) would customers accept a supplier simply passing through additional costs. None of MNI's supporters, for instance, could simply pass through additional energy to their customers. Increased costs need to be off-set by increased efficiency. The Regulator's approach on this matter is already more than advantageous to NIEN.

Connections Pass-Through

We agree with the Regulators view to settle on Option 2 – removal of the pass-through for housing site of 12 or more sites.

As for 'Cluster', we do not believe that it is in the interests of consumers to ensure the cost of networks to serve these. Instead, these should be paid exclusively by the developers. We already have significantly more renewable generation connected and connecting than there is demand for this power.

Optional Investments

We strongly agree with the Regulators refusal to exclude Optional Investments are outlined in NIEN's business plan (page 136 of the Draft Determination). It was clearly identified in NIEN's own consumer engagement, and highlighted by the company in their submission, that business consumers were not prepared to pay for these investments and the company has until now provided no justifiable value for money reasons for these investments to be made.

If the Regulator was to review this decision, we believe that only domestic consumers should pick up this cost through an adjustment in the domestic network tariff with the company challenged justify a business case on that basis.

As previously stated, NIEN's own engagement confirms that there is no consumer appetite to increase NIEN's funding levels and would urge the Regulator to ensure that any final determination commits to no additional cost burden on consumers. We believe the company is more than sufficiently rewarded for operating a monopoly as demonstrated in profitability reports and further productivity gains should be encouraged if they are to seek greater levels of profitability.

We are happy for this response to be published.



Stephen Kelly
Chief Executive