



Response to the Draft Determination to the Price Control 2015-2020 for the Electricity System Operator for Northern Ireland (SONI)

Manufacturing NI welcomes the opportunity to respond to the consultation on the above Draft Determination.

We represent some 550 manufacturing businesses across every constituency represented in the NI Assembly. Manufacturing represents around 12.5% of local GDP and approximately 10% of total employment. With around 70% of manufacturing taking place outside of Belfast, it's impact on local economies is more pronounced with, for instance, more than 1 in 4 jobs in the new Mid-Ulster and more than 1 in 5 jobs in the new Mid and East Antrim Council areas being a manufacturing job.

Electricity usually represents the 3rd largest input cost for manufacturers. Our members and others endure the 2nd or 3rd most expensive electricity in Europe. This impacts greatly upon their ability to compete, particularly in export markets. Additionally, they are at a cost disadvantage to the Republic of Ireland.

Competitive electricity prices = jobs. With competitive electricity, we open up the chance of attracting investment in our manufacturing base and new large energy users (both manufacturing and data centres). This increases the likelihood of rebuilding a balanced economy through reindustrialisation to meet the EUs 20% of GDP target; improve export, trade and employment; and strengthens the energy market itself with lower prices for smaller consumers.

The fundamental policy problem is the absence of a target on achieving electricity prices competitive within the EU. This is overdue.

This can be achieved by:

- Reducing** Generation, grid and market operator costs (includes demand side peaks through appropriate price and response mechanisms which business could respond to, thus reducing overall costs)
- Avoiding** Unnecessary policy and incentive costs
- Allocating** Cost equitably between customers
- Supporting** Demand reductions for large customers

As defined in the consultation document, SONI have a critical role in ensuring supply and operating an economic system for customers. Their cost and performance are critical elements to ensure that we have electricity prices which can enable the NI economy to grow.

Incentives

We read with interest the Regulators proposals on incentives. It is our view that constraint costs are over burdening customers and have witnessed excessive rises in the last number of years. Within this area is largely within the control of SONI we would encourage the Utility Regulator to ensure that there are more stretching cost saving targets on the Dispatch Balancing Cost management performance. We understand the value of incentives in this area but believe that increasing the threshold at which incentives are achieved would be in the interest of all customers.

Competition and Markets Authority Elements

We welcome the inclusion in SONI's Draft Determination of items, processes and penalties as applied to NIE in the Final Determination from the CMA on NIE's Price Control. We would encourage, where appropriate, that these form the basis for all future Price Control projects of regulated companies.

Payroll and Pensions

Whilst we of course want to ensure that the best people are attracted to such an important organisation, we are astounded by the analysis that SONI's payroll grew by 20% whilst its headcount only grew by 2 people. All parts of our economy, including the public sector, have seen wages frozen or indeed shrunk. We do not see the justification for such a large rise in payroll cost and would ask that these excessive are controlled or pegged back.

In addition, we are astounded by the analysis that SONI staff are achieve a 19% higher salary than is appropriate and that the "increase in payroll includes a 30% increase in National Insurance a 40% increase in Pensions costs a 33% increase in bonus and profit related pay, an increase in agency staff". We can find no justification for such excessive rises and feel these must be challenged. The proposal to "reduce the mean average 2013/2014 bases salary by 5% and use this as the benchmarked allowance for the 2015/2020 price control period" does not go deep enough. We believe that salaries should be brought into line more swiftly.

With regards to headcount, we understand and support the Regulators expert view on these role. However, we have noted a significant rise over time in the numbers of people employed by SONI which does not reflect what is happening in business or the public sector. Tight control over headcount is required.

SONI's Pension proposals would add significantly to customer bills and is well in excess of similar organisations. Again, as above, we support the Regulator's assertion that these should be quickly brought into line with similar organisations. The Regulators proposal are still very generous in our view and would ask that these are reviewed to ensure customers in Northern Ireland are not unduly burdened by a very generous scheme.

CORES0

We support the Regulators view that payment for membership of CORESO (an organisation we had not heard of before seeing your document) should be declined. What benefit is there from SONI's

membership and, surely SONI's parent company are already member and as such the knowledge and insight should be shared internally.

The 2010 EMS System

It is our view that customers should be protected from the additional cost burden of a new EMS system when they are already and continuing to pay for the 2010 system. Further, we believe this incident should have been avoided. As a Regulated company, SONI should have provided more transparency for customers in this area protecting them from costs.

Allowed Revenues

Table 33 (Allowed Revenues) shows the Regulator excluding some £22.4m of revenue which SONI had sought for a variety of items – Innovation, Remunerated Contingent Capital and Margin. We support this approach fully – particularly where there is already funding in place and to allow this additional review would in effect be a double charge on customers.

Our view remains steadfast... what are we getting for any increase and where is the value for customers. Unless these are comprehensively proven, all cost (including the above) should be rejected.

Transparency

MNI have had recent cause to seek transparency from SONI with an unsatisfactory result. We would suggest that the Regulator stresses the important of transparency from SONI (and all regulated companies) and works to measure performance in this area – with consequences or indeed potential benefit. Energy is a complex business and whilst we are amongst the most engaged in this area it remains deeply frustrating. We are entitled to and should receive the transparency required.

Overall, we are in broad support of the Utility Regulators approach in this Draft Determination however we are disappointed that once again customers appear to be burdened with increasing costs (a 21% rise). It follows a similar approach as finally determined by the CMA, demonstrates that customers should be protected from unnecessary costs and maintains that the burden of proof around customer benefit needs to be clearly identified and guaranteed by SONI. We would encourage a quicker and deeper alignment in areas of payroll and pensions which would protect customers now and in the future. **We believe that these and other areas should be further scrutinised in order to reach a zero increase in cost of customers or clearly demonstrate that the additional costs are necessary but offset by being removed from other parts of the energy market.**

We are happy for this response to be published.

11 May 2015