

CBI Northern Ireland Response:

Utility Regulator's consultation on Transmission and Distribution 7th Price Control (RP7) Draft Determination

21 March 2024

The CBI Northern Ireland welcomes the opportunity to respond to the Utility Regulator's consultation on Transmission and Distribution 7th Price Control (RP7) Draft Determination.

The CBI speaks on behalf of 170,000 businesses of all sizes and sectors, across every region and nation of the UK. This includes over 1,100 corporate members, plus nearly 150 trade associations. Corporate members alone employ over 2.3 million private sector workers. The CBI in Northern Ireland (CBI NI) represents hundreds of local businesses (large, medium and small) across a full range of sectors. This includes indigenous companies in Northern Ireland, as well as those headquartered in other parts of the UK that have operations locally.

In addition to this generic response, CBI NI members have been encouraged to respond from their individual business capacity.

Introduction

The UK government has set a legally binding target to achieve net zero by 2050, this will require a cross-economy decarbonisation effort underpinned by a net zero energy system. In addition, Northern Ireland has also passed a Climate Change Act (March 2022) which makes a legal commitment to net zero carbon emissions by 2050 and commits to 80% of electricity consumption coming from renewable sources by 2030.

This energy transition will require a once-in-a-generation change, a shift from a high carbon, dispatchable system to a low carbon system. Delivering a secure, sustainable and cost-effective transition will require significant volumes of private investment in infrastructure at pace and scale.

The UK's goal of a net-zero carbon economy, and the private sector's role in achieving that goal, is of utmost importance to CBI members. Only businesses - in collaboration with the government - can provide the scope of innovation and investment needed to achieve net-zero targets.

CBI NI agree with the Utility Regulator's statement in the Draft Determination that: 'During this price control period, **energy usage is forecast to increase** in line with the Northern Ireland Executive's Energy Strategy as homes and businesses adapt to the use of decarbonised power, heat and transport options, which includes heat pumps and electric vehicles.' (*We will expand on this point later in this response.*)

Response

CBI NI members welcome that there has been good engagement between the Utility Regulator (UR) and NIE Networks and that the UR recognises the need for transformation to achieve net zero and that a solid platform exists to build on.

However, the need to future proof NI's electricity network to achieve our energy goals cannot be overstated. Lack of capacity on the network currently deters crucial investment in renewable generation as investors need to see a clear route to market for their projects. CBI NI Members from across different sectors have highlighted that the length of time it takes to connect to the grid is an issue. There is also a need for an overarching regulatory framework capable of supporting this transition.

The private sector will be key to unlocking the volume of innovation and investment required to deliver net zero and a low carbon energy system, and this must be done with the support and collaboration of government and Utility Regulator.

The business community firmly agrees that the network must be invested in now to assure investors that the projected increase in demand for electricity can be catered for.

CBI NI members have highlighted that when it comes to forecasting, it is imperative for NIE Networks to look at the end point of Northern Ireland's long-term plan to decarbonise and consider what is the optimal extent of electrification in NI (e.g. planning for load factors as opposed to peak capacities where 'peak shaving' opportunities exist for hybrid heat pumps operating with renewable gas).

It should be noted that the one of the objectives in the Energy Strategy for Northern Ireland is 'Meet at least 70% of electricity consumption from a diverse mix of renewable sources'. The department is actively pursuing offshore wind to achieve this. There needs to be anticipatory spend to allow this energy to be transported and taken to the major demand centres. Anticipatory investment in this area is fully warranted as the costs of any constraints to alleviate will be very substantial.

We note that smart metering proposals and developments have been excluded from the assessment of metering for RP7 and will be dealt with under a reopener mechanism when required. CBI NI strongly advocates digitalising of the energy system to support all stakeholders and ask that a timeline is put in place around progressing this piece of work. For network owners a digitalised system allows for more efficient management of the system and for consumers it enables informed choices to be made.

To attract investment and support economic growth, it is vital that there is parity between the connection charging regimes for rural and urban businesses and with NI's closest competitors in GB and RoI. In our response to the Utility Regulator's Call for Evidence - Electricity Connection Policy Framework Review, the information provided by CBI NI Members, demonstrates that the current pricing arrangements add significantly to investment costs, and this has the potential to deter businesses from making new investments or having to scale back on the size of their investment. Therefore, a suitable connection charging framework is required that will ensure Northern Ireland is as attractive for investment as neighbouring jurisdictions. It is important for NI to be on a level playing field with its closest neighbours to ensure investment is delivered at a similar pace.

Whilst we recognised that the UR has a duty to ensure that the transition is affordable, fair, and inclusive for all, there is a need to change the message to consumers. The message needs to be a recognition of how critical this investment is for Northern Ireland's economy and living standards and the positive impacts it will have.

Funding for RP7

We note that NIE Networks proposed a Business Plan with a total expenditure (totex) of £2.55bn over the six-year price control period. The UR's draft determination **reduces this to £2.21bn, a reduction of £0.34bn**. The total expenditure submitted included £0.49bn of investment in D5 (major transmission) projects which will be determined as additional allowances during the price control

period. Therefore, when D5 investment is not included in the comparison, **the reduction of the draft determination equates to 16% of the determined totex programme.**

In response to the UR's determination around the level of funding required, whilst we take on board that the UR has stated that **they are not proposing that the company delivers less**, or that this will affect the journey to net-zero, CBI NI do have some concerns in relation to this. We note that they have not allowed funding for a network innovation fund, but this is critical as new technology is developed. CBI NI would also emphasise that the reduction in funding for the number of people who will deliver the RP7 business plan will have an impact on NIE's ability to deliver the plan and that it is key that sufficient resources are allowed for. It is also imperative that the process of authorising additional allowances does not add unnecessary administrative costs or time delays that inclusion in this price control would have avoided.

We understand that NIE Networks are required to raise £2bn in financing over the RP7 period; perceptions can impact the view of rating agencies and it is key therefore that a stable environment is created as any changes are seen as uncertainty and can impact costs.

Whilst we understand the UR's need to protect consumers there are concerns around inflationary adjustment and if inflation rises it is likely that this will become problematic. The introduction of an inflation adjustment mechanism as proposed in the Draft Determination gives rise to a number of material risks for NIE Networks and consumers in NI. It would be a significant departure from the current regulatory model and from the arrangements that currently apply in GB. It poses a significant risk to NIE Networks' credit rating, funding capacity, investability and its cost of capital relative to GB networks with whom NIE Networks competes for finance. It risks NIE Networks being perceived as less competitive and attractive relative to GB networks. Ultimately this could lead to higher debt costs for NIE Networks which would in turn be passed onto consumers. Given the very significant capital investment programme that NIE Networks plans to undertake over the course of RP7 introduction of this mechanism could jeopardise NIE Networks ability to finance the RP7 plan.

Demand for electrification

In relation to question posed in the consultation document on whether the assumption of the connection of **300,000 electric vehicles and 120,000 heat pumps by 2030 is a reasonable one**; CBI NI members agree that the demand for electrification will rise substantially as heating and transport undergo transformational changes and that we need to future proof to allow for increased use whilst there are differing views on the exact numbers.

One member has the view that:

'A concern we have is the focus directed at the heat pump roll out and the assumptions made, which may not be realistic as they are not presently supported by policy and do not reflect the current state of play on the ground. In our view, a full review of a heat strategy for NI needs to be carried out. *(We do note that DfE in its 2023 Action Plan has stated that they plan to issue a consultation on a low carbon heat support scheme in early 2024.)*

In the near term the vitally important part of network development should be to facilitate larger scale generation and demand points.'

The view of the CBI NI's EV Infrastructure Working Group is that it is essential that the investment needed in the grid for EV charge points is not undervalued. Consideration also needs to be given to ensure that the network is prepared in anticipation of the sharp uptake of EVs and to the lead time needed to expedite increased grid capacity. The Working Group also recommend that investment in the electricity network must also keep up with investment in GB and the ROI to ensure that EV users can expect the same level of service on an all-island basis. This is important for tourism, household travel and the business community.

In conclusion, the overwhelming view from CBI NI members is that we are going to see another ramp up in demand for electrification during the RP8 and RP9 price control periods, and that the priority for the RP7 period should be delivery and not a focus on the potential numbers of EVs and heat pumps that require connection. We believe that in all circumstances the initial investment in RP7 on infrastructure will be required and that this expenditure will therefore be on a "no regrets" basis. In all scenarios the basic infrastructure development envisioned by RP7 will form the solid foundations on which future solutions will be built.

We trust that you find these comments useful and please feel free to contact me if you have any queries.

Kind regards

A handwritten signature in black ink, appearing to read "Claire Sullivan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Claire Sullivan
Head of Policy, Northern Ireland, CBI