



Energy for
generations

esb.ie

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Mr. Alan Craig
Finance and Network Assets
Queens House
14 Queen Street
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BT1 6ED

22nd March 2024

RP7 Price Control Draft Determination

Dear Mr. Craig,

ESB welcomes the opportunity to respond to the NIE Networks Transmission and Distribution 7th Price Control (RP7) Draft Determination.

ESB is a leading energy utility, operating across Ireland, Northern Ireland and Great Britain, and provides engineering consultancy services across the globe. ESB is committed to investing in critical energy infrastructure for the benefit of the communities we serve, and we work in partnership with Governments, communities and other stakeholders to develop value driven solutions for our customers.

In 2010, ESB acquired NIE Networks Limited (NIE Networks) and since then ESB has supported NIE Networks significant investment in much needed grid infrastructure to support the Northern Ireland economy and its decarbonisation. Specifically, ESB has generally accepted a lower annual dividend from NIE Networks than peer network companies have paid out, thereby allowing NIE Networks retain comparatively more of their profits to reinvest in critical infrastructure. NIE Networks is an independent business within ESB Group, with its own Board of Directors, management and staff and is regulated by the Utility Regulator (UR).

ESB, as well as its ongoing investment in NIE Networks, is a committed and substantial investor in energy activities in Northern Ireland.

Strategic Context for RP7

Chapter 1 of the Draft Determination captures the strategic context for RP7 and subsequent price controls very well. Electrification of society through locally sourced zero carbon renewable generation will be the backbone of the transition and will drive industrial policy. Northern Ireland should see at least 70% of final energy demand coming from zero carbon electricity by 2050.



The March 2023 report by the Committee on Climate Change (CCC) "[*Advice report: The path to a Net Zero Northern Ireland*](#)" succinctly captures the role of electricity in Northern Ireland's transition. The report sets out required near term actions to meet 2030 targets, with more than 70% of required reduction actions related to electrification of transport, buildings and business along with the addition of more renewables.

Given this context of the ever-increasing role of electricity, it is important that the electricity system operators (NIE Networks and SONI) are empowered to take a longer-term view of electricity demand based on scenarios agreed with policy makers and consulted upon with stakeholders. This will see anticipatory network investment taking place ahead of near-term generation and demand connecting, to meet long term net zero goals, but it will be a more efficient solution overall. While such anticipatory investments will require controls and scrutiny by the UR, it will provide the lowest cost transition overall to enable Northern Ireland to achieve net zero by 2050.

Investor Perspective on RP7 Draft Determination

Since our acquisition of NIE Networks in 2010 we have been a committed, stable and responsible investor. At the time of acquisition, we made a series of commitment to authorities in Northern Ireland regarding support, continuity, independence and financial strength and we have honored these in full. As a result of that support, NIE Networks is a strong and successful company that continues to deliver for Northern Ireland showing huge commitment to its customers and stakeholders and we are proud to have supported them.

Looking ahead, RP7 is a growth and investment story, the scale of which has not previously been seen in Northern Ireland's electricity infrastructure, as electricity supports decarbonisation of society and drives new economic activity in Northern Ireland while ensuring customers continue to receive excellent levels of services from a safe, secure and resilient electricity network.

ESB supports the proposed significant increase in investment in Northern Ireland's electricity network that is envisaged in the Draft Determination. As the owner of NIE Networks, ESB wants to support and enable NIE Networks to deliver that increased investment. However, that will only be feasible if the price control provides sufficient expenditure allowances and an appropriate return on investment.

We have discussed the RP7 Draft Determination with NIE Networks and based on those discussions and our own understanding of the proposals, we believe there are some areas of concern, which, if not addressed could undermine NIE Networks ability to deliver the price control programme of work. Our key concerns are set out below.

Totex Allowance

- Based on our discussion with NIE Networks, it appears that the level of capital and operational expenditure (Totex) allowed in the draft determination is not sufficient to implement the full RP7 programme of work. If this is not addressed, it will create problems during RP7 where regulatory expectations cannot be met due to insufficient allowances to deliver the required investment.

Financial Parameters

The coming years will see increased competition for investment capital as global electricity network investment ramps up significantly. RP7 must be considered through this “competition for capital” lens as NIE Networks must go to financial markets for significant levels of new debt capital.

- The cost of equity proposed in the Draft Determination is too low and is not commensurate with a rational investor’s expectations of investing in an electricity network company in a relatively higher interest rate environment. ESB believes that the cost of equity proposed by NIE Networks in their submission is appropriate and should be used.
- The draft determination proposes an inflation adjustment to the cost of debt in the WACC which ESB believes should not be taken forward for implementation in RP7. The change removes established protections from higher inflation for NIE Networks and introduces new potential for volatility. This is a significant change to a key tenet of the established regulatory framework for electricity networks companies in Great Britain (GB) and to the existing RP6 framework in Northern Ireland. The change poses a significant risk to NIE Networks’ credit quality (and by extension credit rating), funding capacity, investability and cost of capital – and is a matter of real concern for us as owner of NIE Networks. In addition, the mechanism would also create inflation risk to ESB as NIE Networks’ parent company, due to legitimate financial risk mitigation that NIE Networks has taken out in the past based on the existing long established regulatory treatment of inflation in the allowed cost of debt.

In conclusion, ESB believes that the overall direction of travel of RP7 is the correct one. Electricity will play an ever-increasing role in societal energy needs as more fossil fuel applications are electrified. It is important that NIE Networks (and SONI) are empowered to deliver the required infrastructure to support a net zero electricity system including making anticipatory investments in a responsible and prudent way. However, we are concerned that the overall envelope of allowed revenue is not sufficient to complete the significantly increased £2.5bn programme of work and believe that key financial parameters (cost of equity and cost of debt ex-post adjustment) proposed in the draft determination must be revisited to ensure that NIE Networks remains an investable proposition.



We are available to discuss any aspect of this response should you have any questions or require any clarifications.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Clive Bowers', is shown on a grey rectangular background.

Clive Bowers
Energy Policy Manager
ESB