

NIE Transmission & Distribution (NIE T&D) Price Control 2012 – 17 (RP5)



Agenda

- Presentation
- Opportunity for questions – open floor
- Close

Outline of presentation

- Background
- Key principles
- Highlights
- Utility Regulator Proposals
- Connections & Clusters
 - Turnaround times for regulatory approval
 - Increase in Resources needed?
 - Medium term reinforcements
- Impact of RP5 on Consumers
- Next Steps

- NIE T&D (owned by ESB) is the owner of the transmission and distribution electricity network in NI.
- The network comprises overhead lines, underground cables and substations.
- The network connects power stations and other sources of electricity generation to businesses and homes.
- NIE T&D is a monopoly business, so the Utility Regulator regulates the amount of revenue which NIE T&D can achieve via a 'price control'.
- The regulated costs associated with NIE T&D are recovered from customers through network charges.
- Network charges makes up approximately 24% of domestic electricity bill.

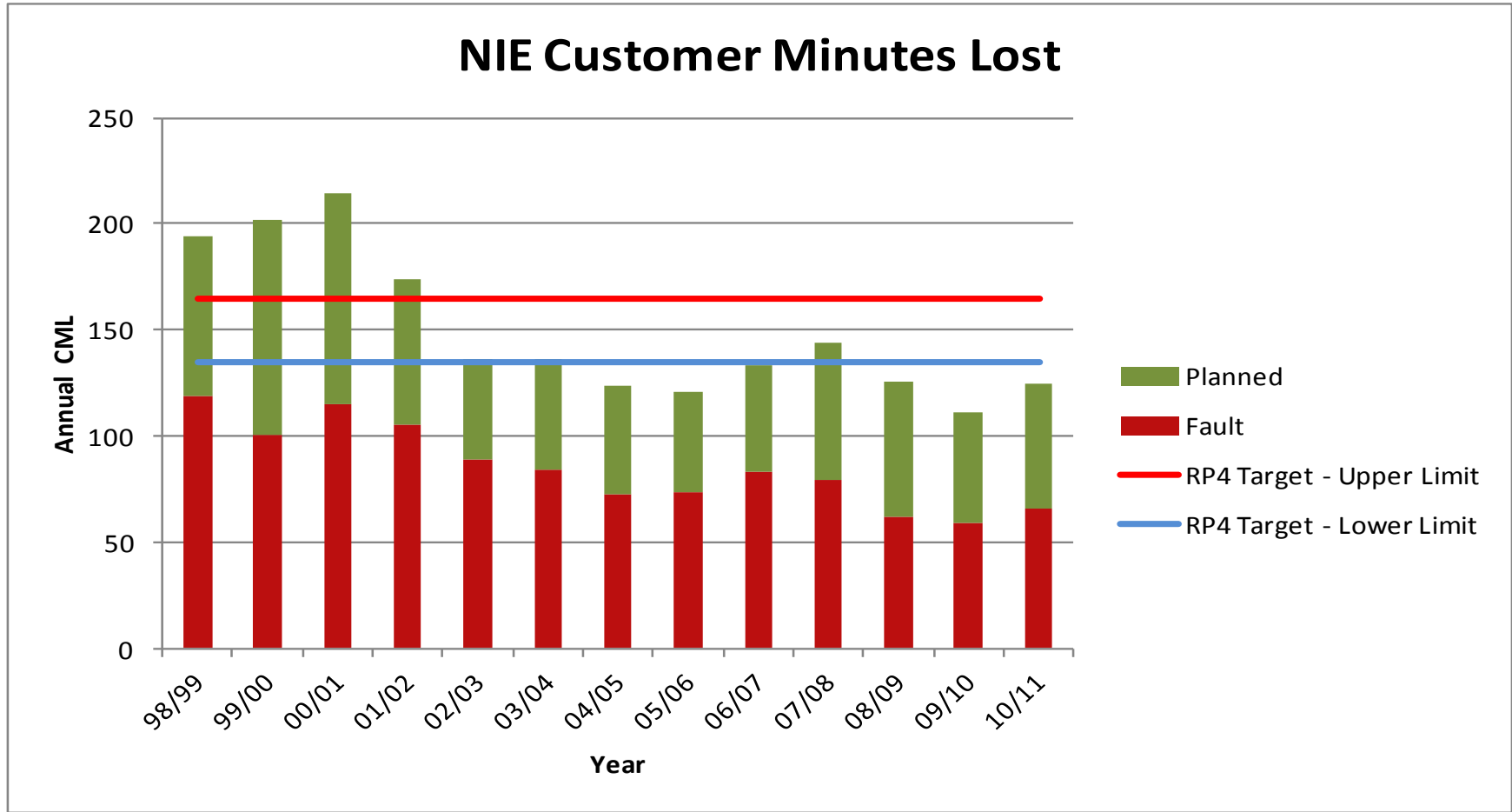
Key principles

- The protection of consumers
 - Consumers do not pay twice
- Provide appropriate allowance for NIE T&D to finance its regulated activities
- Ensure renewable investment is provided in a timely manner

HIGHLIGHTS

- Covers 1st October 2012 – 30th September 2017
- £314M Capex for reliability and growth
- Special treatment renewables and interconnector investment
- Facilitates delivery of energy policy
- £257M Opex
- £22M Pension costs
- All price 2009/10

Customer Minutes Lost



Key Utility Regulator proposals

- Capital Expenditure - Capex
 - Renewable investment will be made a special case, up to £306 million of ring-fenced funding, process to ensure timely approvals
 - The high level of investment for RP4 will be maintained for RP5, £314 million of funding allocated to maintain NIE's high level of network performance and growth.

	RP4 Actual	RP5 (NIE)	RP5 (Ureg)
Capex (BAU)	£289M	£717M	£288M
Capex Connections	£67M	£59M	£27M
Renewables	£18M	£306M	<i>Project-by-project</i>

Key Utility Regulator proposals

- Operational Expenditure – Opex
 - Efficiencies indentified and incentivised
 - 9% gap with GB peers
 - X of 1 to apply

	RP4	RP5 (NIE)	RP5 (Ureg)
Opex	£284M	£345M	£257M

Key Utility Regulator proposals

- Pensions
 - Ongoing costs of the pension accepted in full (£10.5 million)
 - Deficit in NIE's defined benefit pension fund of £87M at 31 March 2011
 - £69M associated with regulated business
 - Deficit repair for
 - unavoidable costs of £36M
 - avoidable costs £33M
 - Customers will pay £12M in RP5

Key Utility Regulator proposals

- Rate of return (WACC)
 - allowance of 4.45% for reliability and growth capex (pre tax real)
 - allowance of 4.0% for renewables and interconnection (pre tax real) – less risk

	GB DNOs	NIE T&D	Our proposals
Pre-tax WACC (real)	5.6%	6.4%	5.25%
Vanilla WACC (real)	4.7%	5.34%	4.45%
Vanilla WACC (nominal)	7.5%	8.5%	7.9%

To convert the real vanilla WACC to a nominal WACC, the inflation used for GB DNOs was 2.7%, 3% for NIE T&D and 3.35% (average) for the Utility Regulator proposals.

- NIE T&D to remove 40% subsidy for domestic customers and small businesses
- Full cost of connection to sit with connectee

NIE to make changes to format and content the **Statement of Charges**

NIE to provide a **regular reporting** on connections and their timing

Scrutinise **O&M** charges

Will assist in

- Greater transparency in comparison of costs
- Development of contestability in connections

Clusters

- Unknown need/ costs/ timing
- Investment will be allowed to
 - Develop the network
 - Facilitate renewable generation
 - Facilitate interconnection
- Assessed on project by project basis

Turnaround times for regulatory approval

Process to be followed will be based on:

NIE	UREG
NIE Request approval for pre-construction costs	
	UREG undertake technical assessment and cost benefit analysis (CBA)
NIE prepare outline design and obtain planning permission etc.	
NIE prepare tender documents and undertake procurement and finalise wayleaves etc.	UREG technical assessment of final scheme
NIE submit final cost details to UREG	
	UREG review CBA
	Final Approval by UREG board

Increase in Resources needed?

- Connections work funded by connecting parties as part of connection charge - not included in price control or regulated income.
- Deep reinforcement works funded by RAB via:
 - Capitalised overheads
 - Pre-construction costs approved separately
 - Construction costs approved later once all permits received and tenders assessed
- Funding will be for efficiently incurred costs

- NIE have a statutory duty to ensure network is efficient, economic and co-ordinated
- Factors such as planning permission and wayleaves are outside UREG control
- Without the Tyrone- Cavan interconnector the options for utilising the RIDP assets are limited, therefore they would not be guaranteed to pass a CBA test.
- Potential for pre-construction work to continue so that NIE can “hit the ground running” once the interconnector has all necessary approvals and landowner access.

Impact of RP5 on consumers

- Further high levels of capital investment to ensure continued reliability of network
- Support for renewables
- Inflation excluded

	Current	2016/ 17 Excluding Renewables and Interconnector	2016/17 Renewables and Interconnector
Domestic (4041 kWh/year)	£146	£122	£128
Small Business	£505	£421	£441
EHV Customer (27 GWh/year)	£138,850	£115,259	£139,010

Next Steps

- Closing date for responses is **19 July 2012 (by 5pm)**
- Focus on extensive consultation with stakeholders over the consultation period – to also focus on issues such as capitalisation practice
- Introduction of a Renewables Development Forum (RDF) – first meeting 11th September 2012
- Final Determination expected before the end of the year

QUESTION AND ANSWER SESSION

Thank you for your participation

Responses to RP5 Draft Determination by
19 July @ 5pm