

# Annual Report | 2016-2017





## Our mission

To protect the short and long term interests of consumers of electricity, gas and water.



## Our vision

To ensure value and sustainability in energy and water.



## Our values

- Be a best practice regulator.
- Be professional.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

## Annual Report 2016-2017

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Combined report of the Northern Ireland Authority for Utility Regulation (the Utility Regulator).

The Utility Regulator has decided to produce a combined energy and water and sewerage report in accordance with Article 5(5) of the Water and Sewerage Services (NI) Order 2006.

Laid before the Northern Ireland Assembly in accordance with Article 5(1) of the Water and Sewerage Services (NI) Order 2006 and Article 6(1) of the Energy (NI) Order 2003 by the Department for the Economy.

Under Article 6A of the Energy (NI) Order 2003 (as amended) the Utility Regulator is obliged to prepare an annual report in relation to the activities it has carried out in the preceding 12 months in its capacity as a designated regulatory authority for Northern Ireland. This report shall include a general survey taken and steps achieved by the UR in the performance of its functions under Article 37 of the Electricity Directive 2009/72/EC and Article 41 of the Gas Directive 2009/73/EC. This report is due to be sent to the Department, the European Commission and the Agency (ACER) by 1 July of each year. Information in this annual report is intended to also fulfil the Article 6A obligation.



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# 1. Chairman's foreword

We are past the midway point in the implementation of our corporate strategy which we published in 2014 and which runs to 2019. Our strategy is focused on delivering tangible outcomes which support our mission of protecting the short and long-term interests of consumers.

Consumers expect that we will play our part, as the economic regulator, in making sure that they receive excellent, value for money services from successful utility companies. Our price control reviews for network electricity and gas companies support prudent investment in infrastructure, provide performance incentives and promote innovation at the lowest possible cost to consumers. We are particularly pleased to see growth in customer connections to the natural gas network and this bodes well for us reaching the target we set for connections in our corporate strategy.

Supporting successful utility companies is important to us because these types of companies tend to provide better services to consumers. We have taken steps to improve the provision of performance information from these companies, on things like asset management, because this helps drive sustainable performance improvement. We want companies to improve and be able to compare with the best. The journey of improvement of NI Water, as measured in successive cost and performance reports, is a good example of how regulation facilitates improvement.

We also believe in promoting competitive and efficient markets. Along with the Commission for Energy Regulation (CER) we have been working to deliver an enhanced wholesale electricity market, the I-SEM. Much progress

has been made and, following a stocktake on I-SEM, the market will now go live in May 2018. It's not just about wholesale markets either. Following a review of our energy supply market we published the outcome which sets a direction for the future development of this market that best protects the interests of consumers.



Of course we are challenged by the need to balance both the short-term and long-term. Our review of gas tariffs led to increases in bills due to rising international wholesale prices. This is balanced by issues such as electricity security of supply and our continuing call for the construction of a second north-south electricity interconnector to prevent the lights going out.

In everything we do, we value the engagement and support of those who work with us. Our work contributes to the achievement of energy and water policy in Northern Ireland and we are grateful for the support of the Department for the Economy (in respect of energy) and the Department for Infrastructure (in respect of water). The board has met with and visited many industry, statutory and consumer stakeholders during the year and is grateful for this engagement. At a time of some uncertainty in the wider environment, such as on the impact of Brexit, we will continue to work closely with all stakeholders.

It is important, during another busy year, to recognise the commitment of board colleagues. My board colleagues and I are also indebted to everyone who works for the Utility Regulator for their dedication and hard work.

A handwritten signature in black ink that reads "Bill Emery". The signature is written in a cursive, slightly slanted style.

Bill Emery  
Chairman





## 2. Chief Executive's report

As we review the 2016-2017 year, the third year of our corporate strategy, it's been another year of tangible achievements and significant progress.

The growth of the natural gas industry here remains a success story. We saw the first customer connection in the gas to the west area and the commencement of work to extend the gas network into County Down. Our GD17 price control set out a direction for the further growth of the gas network to 2022 whilst minimising the cost implications for all consumers. This included defending our decisions at the Competition and Markets Authority (CMA).

Following an unprecedented level of engagement over the last two years, a significant milestone was also reached with the publication of our RP6 NIE Networks price control proposals in March 2017.

Consumers expect that we will play our part in delivering utility bills that are as low as possible. Putting in place competitive markets provides the context for placing downward pressure on bills. I-SEM will go live next year, and having access to a bigger market, increases competition and choice, and provides the opportunity to get our electricity from markets where prices are cheaper. Indeed, the importance of this unique all-island market and its impact cannot be understated in the context of the UK leaving the European Union. Publishing the outcome of our review of the retail energy market was another major development and set out our position on the future shape of retail energy market. Finally, the prospect of opening up the electricity

connections market moved a significant step closer.

Of course it's not just lower bills that consumers would like. First and foremost they want a secure supply and we continued to advocate for the second north-south electricity interconnector. Consumers also want the protection of knowing that, if their supplier goes out of business, their service will be unaffected. This became very real when we learned in late 2017 that Open Electric was going to exit the market. We moved quickly to protect the service to its customers and this was achieved without any loss of supply. I am pleased that we have also made good progress on the practical implementation of our Consumer Protection Strategy, which is focused particularly on the needs of vulnerable consumers.



As ever, as an organisation, we must strive to improve our own performance as well as setting challenges for those we regulate. We face a challenging agenda as an economic regulator and non-ministerial government department regulating three different industries. Given these challenges I am pleased that we have made progress in several areas to enhance how we operate as an organisation. We have been rolling out our 'UR People' human resources strategy to support the development of our staff. A new internal communications strategy has been taken forward. We launched a new website in October to help improve our external communications.

Everyone who works for us is focused on protecting the consumer interest. After another demanding year our staff continue to meet every challenge and I am full of admiration for their professional commitment and focus on public service.

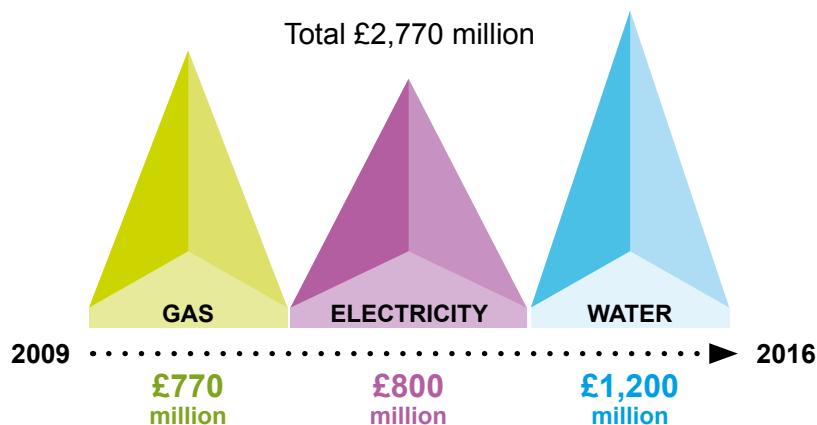
Jenny Pyper  
Chief Executive

# 3. Our year in summary

## Prices and charges

<b>ELECTRICITY</b>	<b>=</b>	<b>&gt;</b>
<b>GAS</b> (Greater Belfast)	<b>7.6%</b>	<b>^</b>
<b>GAS</b> (Ten Towns)	<b>12.2%</b>	<b>^</b>
<b>WATER</b>	<b>2.2%</b>	<b>^</b>

## Investment in utilities



## Promoting competition

- I-SEM progressed with May 2018 go-live date set
- Opened electricity grid connections to competition
- First connection to the Gas to the West network
- Extension to East Down gas network progressed with customers connected

## Promoting sustainable development

Electricity generated from renewable sources

**26%**

Funding provided under NISEP

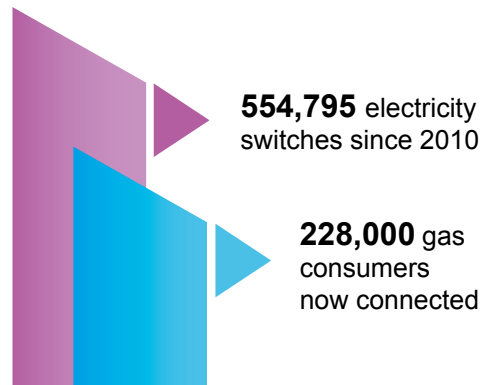
**£8 million**



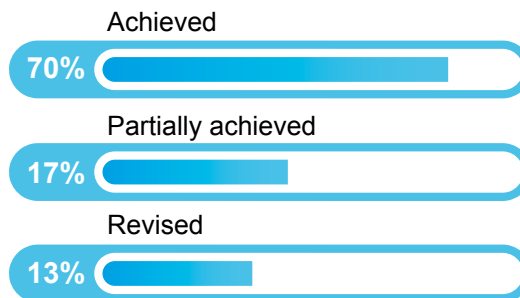
## Protecting consumers

- Implemented year one of our Consumer Protection Strategy
- Minimum standards in relation to four energy codes of practice produced
- New customer measures and customer satisfaction surveys introduced to assist NI water develop more effective customer service.
- Review of retail energy market completed
- Our gas distribution price control provided for lower distribution costs for consumers
- Retail energy market monitoring first formal submissions received and actioned
- Protected consumer electricity supply during supplier failure

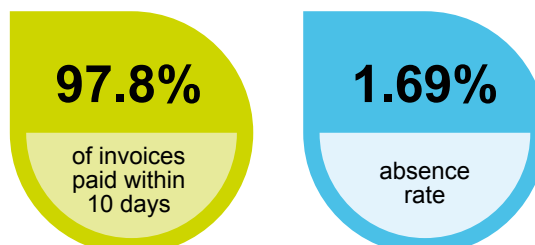
## Consumer activity



## Outcome against our business plan targets



## Effective and efficient regulator



Our proposals for the NIE Network price control (2017-2022) were published.

NI Water's scheme of charges led to a below inflation increase for business customers.



MAR  
2017

FEB  
2017

Airtricity Gas Supply and firmus energy announced gas price increases.



We announced a formal review of gas retail tariffs.



JAN  
2017

DEC  
2016

Open Electric left the supply market and we took steps to make sure that no customers lost supply.



We set out our position on the retail energy market following our market review.

NOV  
2016

OCT  
2016

Firmus energy appealed certain aspects of the GD17 price control to the CMA.

The new I-SEM go-live date of 23 May was announced.



We published our gas distribution price control (GD17).







Following a review, price regulation for business electricity customers was removed.



APR  
2016

A consultation on the EnergyWise energy efficiency scheme was launched.



MAY  
2016

The market for electricity grid connections opened for the first time.



JUN  
2016

JUL  
2016

We launched a consultation seeking views on protecting consumers from the safety issues and costs related to energy theft.



AUG  
2016

SEP  
2016

Codes of practice setting out standards that energy suppliers should meet were published.



We set out our competition powers for the first time.



## 4. Retail and consumer protection

### In brief

- Following rising wholesale costs there were increases to gas bills.
- Our review of the retail energy market was completed.
- Emergency arrangements were activated so that Open Electric customers did not lose supply when the company left the market.
- We began work on practical initiatives to implement our Consumer Protection Strategy.





## 4. Retail and Consumer Protection

### Protecting consumers by making sure tariffs reflect costs

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For consumers the most visible part of our job is reviewing the tariffs of regulated energy suppliers. This affects the majority of households in Northern Ireland (NI). We act on behalf of consumers to make sure that their bills reflect the actual cost of delivering energy to their homes and businesses.

In early 2016 we reviewed the tariffs of Power NI (the regulated electricity supplier). While this tariff was provisionally set for a 24 month period we monitored the situation on an ongoing basis. We have not needed to perform another tariff review since then. Domestic electricity prices remain on a par with Great Britain (GB) and lower than the Republic of Ireland (RoI).

A regulated tariff review was completed for SSE Airtricity Gas Supply NI in the Greater Belfast area. We approved an increase of 7.6% in March 2017.

In the Ten Towns gas distribution area we reviewed firmus energy's tariffs and approved an increase of 12.2% in March 2017.

While price increases are unwelcome, these were the first increases in gas prices since 2013. Despite these increases, NI prices continue to be lower than, or in line with, the average standard gas tariffs in GB.

### Promoting market opening and competition

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Protecting consumers by promoting effective competition, where appropriate, is one of our statutory duties.

The increased number of suppliers and customer switching figures are evidence that our energy retail markets are developing. There are now eight suppliers in electricity and six in gas.

A large share of domestic customers in both electricity and gas remain with the previous incumbent suppliers. As the retail energy market matures this position has been gradually changing.

Power NI's share in the domestic credit market is 72% and their share of the prepayment market is 48%. In the gas sector too, increased competition and switching has begun to reduce the domestic market share of the incumbent suppliers.

We initiated a review of retail energy market competition in 2014-2015. Our final review report was published in December 2016. Our report identified a series of options that may potentially be used in the future should the current form of price regulation on the former incumbents end.

### Gas supply price controls

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To help meet our objectives, we retain price controls on dominant, former monopoly gas suppliers. During 2016-2017 we completed price controls for SSE Airtricity in Greater Belfast and the west of NI, and for firmus energy in the Ten Towns area.

The price controls set a maximum limit on the average price that the regulated suppliers can charge for gas in their relevant markets. It also acts as a benchmark against which domestic





and business customers can compare the prices of other competing suppliers in all three gas network areas. These price controls will last for three years.

## Ensuring consumers' energy supply is protected

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In December 2016, the electricity supply company Open Electric went into administration and as a result, we revoked its electricity supply licence.

There is an established system in place to transfer the customers of a failed supplier to Power NI, the nominated replacement electricity supplier. This is known as the Supplier of Last Resort (SoLR) arrangement.

During the event, over 1,000 customers were seamlessly transferred to Power NI with no loss of supply experienced.

We continued to work to develop detailed SoLR arrangements for the gas industry.

Overall, the SoLR arrangements provide reassurance of uninterrupted supply to consumers in the unlikely event of any supplier leaving the market.

## Our Consumer Protection Strategy

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We have been implementing year one of our Consumer Protection Strategy (CPS). The CPS is a five-year (2016-2021) strategy and action plan aimed at enhancing the level of consumer protection for vulnerable domestic consumers.

We produced minimum standards in relation to four energy supplier codes of practice covering:

- the payment of bills;
- the provision of services for persons who are of pensionable age or disabled or chronically sick;
- the complaints handling procedure; and
- services for prepayment meter customers.

We also have in place a mandatory Marketing Code of Practice.

We consulted on two new codes of practice. Firstly a new supplier Code of Practice on Bills and Statements which is necessary as a result of Energy Efficiency Directive implementation. This code will become mandatory for all electricity and gas suppliers. One purpose of this code is to bring together all the requirements relating to bills and statements. In addition, we are consulting on principles which will help to guide suppliers in the development of customer friendly bills and statements.

Secondly, we consulted on a new code on energy theft which will protect gas and



electricity consumers from the safety issues and costs related to energy theft. This will also require electricity and gas distribution network operators and suppliers to work together to establish and implement detailed and best-practice industry procedures relating to energy theft.

We worked with the Consumer Council for Northern Ireland (CCNI) and other consumer bodies on developing a switching leaflet, to help consumers who do not have access to the internet. This leaflet has been published.

Helping consumers make choices by providing them with the information they need was central to our support for the development of an interactive, energy price comparison tool by CCNI. We worked with the CCNI on the development of the tool which allows consumer to compare prices for all energy suppliers.

One of our CPS commitments was in the area of supply disruption and we published a consultation paper proposing Guaranteed Standards of Service for Electricity Suppliers in NI.

In late 2016, we held a communication forum with both industry and consumer stakeholders. The forum was convened to bring together relevant organisations to address two issues: (1) major incidents; and (2) critical care registers. Representatives from energy and water network companies addressed the forum to highlight how their major incident and critical care processes and procedures ensure adequate protection for NI consumers. Additionally, the Information Commissioner's Office made a presentation on data protection issues and the benefits to consumers of adequate levels of protection in the treatment of their personal information.

Consequently, work has continued to review critical care and customer care registers in NI. We work with the network companies to identify how we best protect consumers by increasing

awareness of care registers to consumers and data protection issues.

Another practical support for consumers is through energy savings schemes. A number of government-led schemes are available to consumers wishing to increase the energy efficiency of their homes. These schemes offer the consumer, based on their income levels, interventions ranging from new central heating systems to insulation. We work with partners on energy saving schemes, particularly the Department for the Economy (DfE) and the Department for Communities (DfC). This included engagement with the DfE on the proposed EnergyWise Scheme and with the DfC regarding the boiler replacement scheme and their fuel poverty scheme, 'Affordable Warmth'. We are expecting a final decision from the DfE on EnergyWise later in 2017. This will provide us with the necessary strategic direction regarding energy efficiency provision in NI.

The CPS project 'making vulnerable customers feel secure when utility staff visit their homes' has continued to develop. To help us progress this project we have had extensive and positive engagement with the network companies, consumer bodies and the PSNI.

### **Cross border co-operation with other regulatory authorities – harmonising retail markets**

We have continued to work with the Commission for Energy Regulation (CER) and the network companies and suppliers in the area of co-ordinated retail markets. NI and the RoI now share a single harmonised market schema. This makes it easier for new suppliers to operate on both sides of the border and allows them to link more efficiently with network operators.

The retail markets coordination steering group, is co-chaired by us and the CER, supports



the ongoing operation of the single all-island schema. The benefits of harmonisation include reduced costs for suppliers and ease of entry for those new suppliers that intend to operate in both parts of RoI.

## Monitoring the retail market

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Our duty to keep the development of the retail energy market under review was further enhanced by the IME3 directive which requires us to monitor how the market is working. We also provide consumers with access to clear and easily understood information on suppliers, products and tariff/service choices.

As part of the existing market monitoring we carry out in the gas and electricity retail sectors we publish quarterly reports (QTRs). These reports deliver transparency for stakeholders and consumers and examine in detail essential indicators which are also used by other National Regulatory Authorities (NRAs) in Europe when monitoring their retail markets.

We previously consulted on proposals for an enhanced monitoring framework, called the Retail Energy Market Monitoring (REMM) framework. REMM allows us to monitor the supply markets, inform policy and protect consumers. Following the testing phase of the REMM project, which ran for just over six months to ensure there was a full understanding of the REMM indicators, we received our first sets of formal quarterly data submissions. We have also written to all suppliers about areas for improvement and reminded them of the obligation to provide accurate and consistent information.

Later in 2017 we will begin a process of publishing the new REMM indicators.

## Access to consumer consumption data

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The Energy Efficiency Directive places requirements on member states in the

area of consumer consumption and billing transparency.

The former Department for Enterprise, Trade and Investment (DETI) brought in the Energy Efficiency Regulations (NI) 2014 in July 2014.

The Energy Efficiency Directive establishes a common framework of measures for promoting energy efficiency within the EU. As part of the implementation of the directive we will consult on and publish a billing code of practice which suppliers must comply with.

## Retail investigations, compliance and enforcement

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There has been an increase in issues around potential supplier licence compliance. Currently we are undertaking two separate formal investigations. We have satisfactorily closed a number of informal investigations during the year, of which there is one still pending at the time of writing.



## 5. Electricity

### In brief

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- We published proposals for the NIE Networks (NIEN) price control (RP6).
- Progress delivering the I-SEM has been maintained with a go-live date in May 2018.
- The DS3 programme has increased the limits for accommodating the proportion of renewable generation on the network from 50% to 60%.
- Opening up grid connections to competition is now a reality.

# 5. Electricity

## Promoting efficiency and monitoring the investment plans of regulated companies

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We have made significant progress on RP6, the next price control for NIEN, which will run from October 2017 to 2024. An important part of RP6 has been the extensive engagement with NIEN and other stakeholders – including on our overall approach to the price control.

We established, along with NIEN, CCNI and DfE, a Consumer Engagement Advisory Panel (CEAP). This provided consumers with an opportunity to give their views and have these reflected within NIEN's business plan submission.

We also worked closely with NIEN on the information required in the company's RP6 business plan submission. In particular, we have engaged with NIEN on regulatory information and guidance (RIGS) which allows comparison with GB electricity companies and provides transparent annual cost reporting.

Our draft RP6 determination was published on 24 March 2017. The draft determination:

- allows for £662 million of network investment – and also makes provision for the construction of the second north-south electricity interconnector;
- puts in place new customer service performance indicators;
- identifies £169 million (or 11%) of cost savings compared to the NIEN's business plan; and
- results in a small decrease over the six years of RP6 in the network charges paid by consumers. Savings for the largest energy users are likely to be more significant and up to £10,000 per annum for the very largest by 2023-2024.

Our draft determination document sets out the next steps for RP6, including further workshops, with the final determination due in June 2017.

We also published the licence modifications to implement the price control for the electricity system operator for NI (SONI). The price control will facilitate the development of transmission pre-construction projects and the operation of the I-SEM and DS3 projects.

## Promoting market opening and competition

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Along with CER we developed and delivered the Single Electricity Market (SEM) in 2007. We have been progressing the development of an enhanced integrated market, the I-SEM, that will meet the requirements of EU Regulation 2015/1222 for establishing a guideline on capacity allocation and congestion management.

The SEM market monitoring unit (MMU), based at our offices, continues to monitor the SEM and carried out a number of investigations into bidding practices in the market. The MMU's quarterly update report provides an overview of the SEM market.

### MMU quarterly reports - key facts

- The system marginal price (SMP) in the SEM reduced from an average of €51/MWh in 2015 to €42/MWh in 2016.
- This average SMP was the lowest on record, with three of the four quarters seeing average SMP at €38/MWh.
- Gas has been the dominant fuel type since the SEM began, and represented 53% of total fuel consumed on average for 2016.
- Levels of demand were broadly similar to those seen in 2015.

The Annual Capacity Payment Sum for 2017 was also calculated. This is the revenue earned by generators in the SEM in return for the





provision of available capacity. This resulted in a slight increase in capacity, mainly due to the increase in forecasted demand levels. This increase however was offset by a reduction due to DS3 system services revenues.

## Delivering the I-SEM

While delivering the I-SEM will ensure compliance with EU requirements, the opportunity to enhance the workings of the wholesale market and the increased contribution from renewables are key considerations.

The I-SEM will allow the re-design of the market to ensure power is efficiently used on the system and will help with security of supply, lead to greater market transparency and allow for improved interconnection.

During the last year we made progress across all the significant I-SEM workstreams: energy

trading arrangements, capacity remuneration mechanism (CRM), governance and licensing, forwards and liquidity and market power.

The key areas of policy development related to the detailed design of the energy trading arrangements, the publication of decisions on measures to promote liquidity and market power mitigation measures.

A significant amount of ongoing engagement has taken place with industry. We continue to work, along with the system operators, SONI and EirGrid, to ensure the necessary systems and processes are in place to aid market readiness.

We also initiated a stocktake of progress on delivering I-SEM. Following consultation with key stakeholders the SEM Committee decided that, while the market would be ready at the end of 2017, the go-live date would be 23 May 2018.

# SEM

committee

The decision making authority for the Single Electricity Market on the island of Ireland



While the UK government's decision to leave the EU could potentially impact on I-SEM, we are continuing, having consulted both governments, to progress delivery by the go-live date.

## Addressing security of supply and promoting sustainability

EU Directives 2005/89/EC and 2009/72/EC contain provisions aimed at increasing security of electricity supply. Security of electricity supply in Northern Ireland remains a medium to long-term risk.

Most critical to addressing this risk is the construction of a north-south electricity interconnector. We continued to advocate, in the public domain, for the construction of the north-south electricity interconnector as soon as possible. The Planning Appeals Commission (PAC) held a public hearing regarding its inquiry on the north-south electricity interconnector, which we attended and contributed to, in February 2017. The outcome of the PAC's inquiry is expected to be announced before the end of 2017.

The design of the CRM for the I-SEM will also assist with addressing security of supply. The

CRM is being developed through a series of consultation and decision papers and is being designed to meet the EU's state aid guidelines on environmental protection (2014/C 200/01). The CRM is also being designed to mitigate risks to areas on the all-island electricity network where there are security of supply concerns (e.g. NI or the Dublin area). The first CRM auction is expected to take place in December 2017 to secure capacity until September 2019. Further auctions will then take place in order to secure capacity for subsequent years.

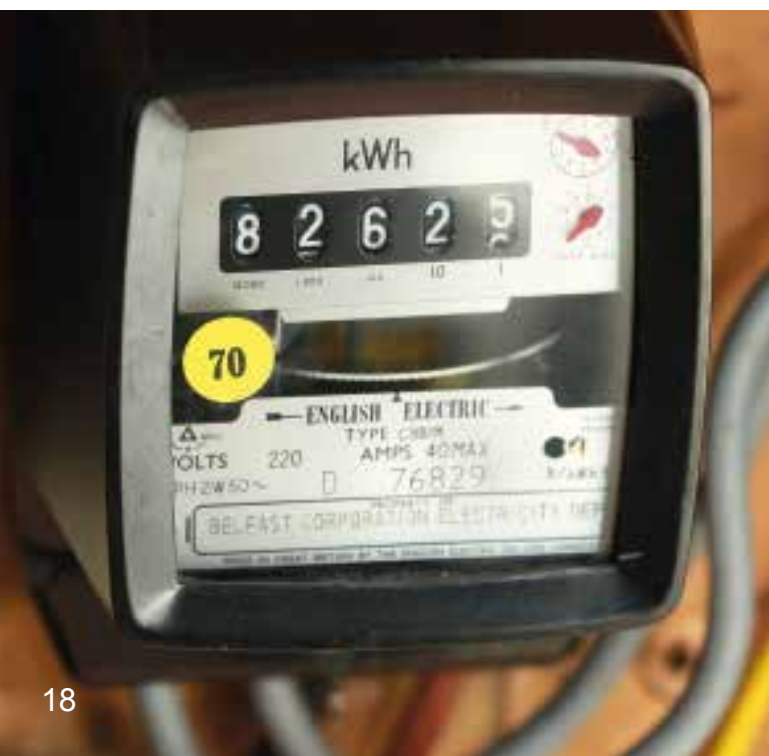
We have also continued to work with DfE and SONI to assess and manage longer term security of supply issues.

We also took steps to promote sustainability. To address the impacts that increasingly high levels of wind placed on the electricity system will have, we have been progressing the delivery of a secure, sustainable electricity system (DS3) programme with CER. The objective of DS3 is to facilitate increased levels of renewables and effectively decrease the levels of curtailment.

The starting operational limit on fluctuating generation (such as wind) at any given time was 50%. Through the successful completion of the DS3 programme, this limit has been increased, first to 55%, and now the system is operating at 60%. One of the DS3 goals is to move the limit to 75%.

The past year has also seen the development of further products in system services with 11 products now being procured as standard. This is an increase from the original seven products and facilitates a more flexible system as well as providing an increased level of system service payments.

In addition this year has seen the start of a trial by the system operators to allow new providers of system services. Participants in the trial







include wind generators and demand side units with the goal being that such units will be allowed to provide and be paid for by system services in future.

The trials include three new system services. These additional system services will allow the electricity system to respond more flexibly to fluctuations in wind on the system. For example, there are rewards for service providers who can respond very quickly to system needs.

We have been working with stakeholders and the system operators in implementing the provisional guideline on electricity balancing. This has led to us launching consultations and publishing decisions on the application process for generator classification as an 'emerging technology'. We also published a decision paper and guidance document on network code derogations.

The renewables grid liaison group (RGLG), a group of stakeholders which we host, continued to provide a forum for addressing issues associated with renewables. Over 2016 it provided a platform to offer updates on the Renewables Integration Status Report and Transmission System Development as well as updates on connections, constraints and contestability.

## Addressing electricity connections issues

Connections to the electricity grid by renewable developers and micro generators continue to be an area of extensive interest. After a disputes determination in August 2015, there was a significant increase in requests for connection applications. We allowed NIEN and SONI time to develop new methodologies and consult further on the best operational processes. An alternative connection application and offer process decision paper was produced in May 2016.



In November 2016 we published a call for evidence to begin the process of our review of electricity distribution and transmission connections policy. In 2017 we consulted on how extensions should be treated and our proposal to clarify NIEN and SONI's ability to refuse to provide connection offers. We also identified next steps on other connections issues.

In 2016 the ability to work on contestable competition for connections of 5 MWs and over opened. We are continuing to engage on the implementation of contestability for all customers and are intending to consult further on licence modifications to enforce the implementation processes. It is expected that contestability will be fully implemented in 2018.

The subsidy arrangements under the NI Renewables Obligation (NIRO) have now closed to new applicants. However as more renewable generators are connected to the grid, saturation is evident across parts of the NI grid.

We will continue to work with NIEN and SONI to ensure any connections that can be accommodated without transmission investment will be dealt with quickly. If transmission investment is required to accommodate the increased number of renewables then is likely to take a number of years prior to being commissioned.

## Addressing quality of service and service standards issues

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There were developments in other service areas during the last year:

- We continued to work with the electricity regulated companies to ensure adherence with their compliance plans.
- We published a Call for Evidence on Electricity Guaranteed Standards of Service

(GSS) which initiated the process of our review of the Electricity GSS.

- Landbank is managed by NIEN under our direction. A number of sites are in the process of being sold to release value to consumers and we have increased interest in the development of specific sites for potential generation development.
- Three disputes in relation to connections were raised for electricity. We were able to resolve the issues on one of these disputes without the need to proceed with the formal dispute process. The other two disputes are still being processed.
- We were also involved in a judicial review of a previously determined dispute. The outcome of the review was that the matter was referred back to us by way of a new dispute.
- We continue to engage with DfE in relation to metering strategy and smart metering considerations.
- We further extended the programme for meter replacement for theft.





## 6. Gas

### In brief

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- Our gas distribution price control (GD17) provided for lower consumer bills and £½ billion of investment.
- Firmus Distribution Limited appealed some of our GD17 decisions to the CMA and we robustly defended the consumer interest.
- Significant progress continues on extending the natural gas network to the west of NI and County Down.
- The total number of gas consumers connected in NI reached 228,000.



# 6. Gas

## Promoting efficiency and monitoring the investment plans of regulated companies

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The final determination for the price control (called GD17) for the gas distribution companies – Phoenix Natural Gas Limited (PNGL), firmus energy (fe) and Scotia Gas Networks (SGN) was published in September 2016. This builds on the progress delivered during the previous price control and covers costs which make up around 40% of the final customer gas bill.

The determination results in a reduction in current distribution charges (before inflation) for all customers worth up to £16 per annum.

Our final determination provides for:

- investment of £226 million in the gas network;
- sets targets for approximately 89,000 new gas connections;
- allows 1,377 km of additional gas pipelines to be built; and

- approximately a further 134,000 more customers will have gas outside their property meaning that 60% of NI properties will have access to the benefits of natural gas by 2022.

Following the publication of the GD17 determination, both PNGL and SGN accepted our determination.

fe however appealed our determination to the CMA on several grounds – the most significant being the rate of return. We have robustly sought to protect the consumer interest by providing representations to the CMA and setting out our position over three days of hearings in Antrim and London. We expect the CMA to make a decision on the appeal by June 2017.

We have also progressed GT17, the price control for the four high pressure gas conveyance licence holders in NI for the period 1 October 2017 to 30 September 2022. The four licence holders are: GNI (UK) Limited (GNI (UK)), Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL) and West Transmission Limited (WTL).

Key areas for the price control are controllable and uncontrollable operating expenditure, expenditure to replace or upgrade existing equipment where necessary as well as, for GNI (UK) and WTL, the rate of return. The price control also sets out the allowances for the single system operator targeted for implementation in Northern Ireland for 1 October 2017.

The approach for the price control was published in June 2016, followed by a consultation on our draft proposals. We expect to publish the final determination in July 2017.

## Promoting the development of the gas industry

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We continue to promote the economic development of the natural gas industry in NI





and made significant progress on extending the network in the past year.

During 2016-2017 construction of the Strabane element of the gas to the west project was completed with Leckpatrick/TMC Dairies being the first customer connection in January 2017.

We have also set interim capital expenditure allowances for the Strabane section of the network and have put processes in place to set the overall capital expenditure allowances.

For the high pressure pipeline, planning approval was received and a number of contracts are in place. We expect construction of the high pressure pipeline to begin in June 2017 and be operational by the end of 2018. This will result in an additional 40,000 gas customer connections in the west of NI.

Work on constructing the gas network to County Down has also progressed.

The town of Ballygowan has been connected with work progressing in Hillsborough during the year. This work has been facilitated by our GD17 price control decisions and provides for an additional £58 million investment in the

natural gas network. This will see an additional 27,000 consumers enjoy the benefits of access to natural gas.

Once the Gas to the West, Gas to East Down and GD17 network developments are completed, it will provide the potential for 67% of NI consumers to choose gas. By 2022 we expect 60% of NI consumers to be connected to gas. The network coverage will run from Derrylin in the West to Bangor in the East, from Coleraine in the north to Newry in the south.

Our incentives on gas distribution network operators to make new connections, continues to be successful. At the end of 2016 the number of consumers connected to the natural gas network had increased to 228,000. This is encouraging given our corporate strategy key performance indicator of 250,000 connections by 2019.

### **Establishing a single gas transmission system operator**

NI is obliged to implement Gas Regulation (EC) 715/2009, including the European network codes required by Article 8.





As part of this work we completed a review of the gas exit rules, including the products available at exit points from the transmission system within NI. The review concluded that a gas exit reform should not be implemented at that stage.

Additionally, work has continued with the gas transmission system operators (TSOs) to deliver single system operation - a single code, management team and IT system. This is targeted for implementation by 1 October 2017 and will lead to a more efficient and co-ordinated gas industry.

Working closely with other regulators in GB and RoI, we have also progressed the implementation of a number of European network codes, including in particular the requirements from the amended capacity allocation mechanism and the new tariff network codes.

## Security of supply

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We published the gas capacity statement, which assesses the ability of the NI

transmission system to meet future demands on the network in October 2016. This stated that the gas network continued to be in a position to meet expected demand. We continue to work with government and industry to meet the requirements of the EU regulation 994/2010 on security of gas supply.

There were developments in other service areas aimed at protecting consumers during the last year:

- Following an enforcement process we published our decision to fine a regulated company £500,000 in April 2016.
- We reviewed the rate of return conditions in GNI(UK)'s licence to ensure these remain appropriate and in the interests of consumers. We consulted on a number of modifications to the licence and will conclude this work before the next price control period commences on 1 October 2017.
- A number of licence modifications were consulted on to ensure further protection for consumers in NI and assist in the further delivery of EU compliance.







## 7. Water

### In brief

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- Our review of NI Water's performance during the first year of the PC15 price control showed that the company has broadly delivered on the annual targets set.
- NI Water delivered its highest ever overall performance assessment score.
- The majority of NI Water's non-domestic customers will see bill increases below the rate of inflation.
- New consumer measures and customer satisfaction surveys have been introduced to assist NI Water with developing a more effective customer service.

# 7. Water

## Delivering lower costs and improved levels of performance for consumers

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Our cost and performance report for 2015-2016 was published in December 2016. This summarised our assessment of NI Water's performance in the first year of the six-year PC15 price control period which runs from April 2015 to March 2021.

Performance was assessed against targets which were adjusted to account for public expenditure budget reductions.

NI Water broadly delivered against these targets. The overall service provided to consumers continued to improve against a backdrop of budget reductions and the company outperformed its operational expenditure efficiency target.

The key findings were:

- NI Water's £197.1 million of operational expenditure in 2015-2016 compared favourably to our regulatory allowance of £199.6 million (in current prices).
- The company invested £143.7 million of capital expenditure in 2015-2016. We worked with NI Water, the Department for Infrastructure (DfI) and other key stakeholders to ensure the best possible package of outputs were delivered within the funding available.
- NI Water met our 2015-2016 Overall Performance Assessment (OPA) target, delivering its highest ever OPA score.
- The company met or exceeded planned delivery in all but four of the key performance indicators set in the monitoring plan for 2015-2016.
- Delivery of development objectives is a key requirement for NI Water in PC15. These are about helping the company to develop its capability for the next price control. We found that the company has further work to do to demonstrate that it is making sufficient progress in the delivery of all of these objectives.

We recently commenced our PC15 mid-term review in consultation with other stakeholders. This will allow us to consider whether any adjustments to planned delivery in PC15 are required to account for changes to public expenditure funding or work completed in the first half of the price control period. It will also allow us to assess NI Water progress towards delivery of defined improvements required to support its submission for the next price control, PC21.

## Improving engagement with consumers

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We continue to work with NI Water to improve both the amount and quality of engagement







the company undertakes with consumers and stakeholders.

The Consumer Engagement Oversight Group (CEOG) partnership working model was first applied to NI Water through the current price control, PC15. The CEOG established a Customer Measures/Customer Satisfaction working group (CM/SAT) chaired by us. Like the CEOG, the CM/SAT includes representation from the company, CCNI, DfI and us.

The collaborative partnership model we adopted for PC15 continues to assist with the development of more consumer-focused measures to monitor company performance both against other service providers as well as internationally.

The forthcoming Annual Information Return will include new consumer satisfaction survey evidence. There will also be increased focus on the extent to which the company manages to increase the number of consumer issues resolved at first contact. The new consumer measures are expected to provide the company with the actionable data to inform and develop an even more effective customer service than before.

The consumer engagement approach developed for NI Water, especially the introduction of customer advocacy survey questions, is one we intend to consider across our other regulated sectors. This will ensure we apply an annual, reputational incentive on locally regulated companies to achieve 'best of



class', as reported within our annual cost and performance reports.

## Ensuring consumers are charged fairly

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We are required to approve NI Water's annual scheme of charges. This is to make sure charges are within the price limits determined by our price control. We also seek to make sure there is no undue preference or undue discrimination by NI Water in setting charges between different consumer groups.

We commenced the process for setting the scheme of charges in August 2016. As well as assessing information provided by NI Water, we also engaged with CCNI. Following this engagement and scrutiny, we approved NI Water's charging proposals for 2017-2018 in February 2017.

Following the review, charges for NI Water's non-domestic customers will see increases to their water and sewerage charges at or below the rate of inflation (set at 2.2%).

Domestic consumers are not billed for water and sewerage however the average notional domestic bill remains the same at £408.

## Contributing to the strategic agenda on water

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As the economic regulator of water and sewerage services in Northern Ireland we work closely with all strategic stakeholders. In co-operation with DfI we ensured that a suitable water target was included in the NI Executive's draft Programme for Government. Our overall performance assessment measure was chosen and we will monitor and report on performance moving forward as required.

In line with our duties to protect consumers we have also continued to work on water resource and supply resilience with NI Water and other stakeholders.



This has helped identify the investment required to meet water demand projections until 2042-2043 as well as potential options for improving the overall resilience of the water supply network.

Additionally it has provided for the identification of the level of service being offered to NI consumers for the first time. Public consultation on the draft proposals will end in 2017 and will help inform investment requirements for the remainder of the PC15 price control and the next price control, PC21.

We have continued to actively engage with DfI on the 'Long-Term Water Strategy' and the 'Living with Water Programme'. These initiatives will help to secure the delivery of improved levels of water and sewerage services in the medium and long-term at a reasonable cost. They will also help identify the strategic capital infrastructure development requirements for Belfast for consideration as part of the PC21 price control.

In line with the principles of better regulation we have continued to consider options for reducing the regulatory burden in consultation with NI Water. The opportunities identified will be considered as we develop and implement our approach for the next price control.



## 8. Promoting sustainability

### In brief

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- The proportion of electricity generated by renewables rose to over 26% by March 2017.
- Over £8 million of funding was provided to energy efficiency schemes under the Northern Ireland Sustainable Energy Programme (NISEP).
- A record number of accreditations of additional generating stations were able to claim renewables obligations certificates.



# 8. Promoting sustainability

## Promoting sustainable energy for consumers – the NI Sustainable Energy Programme

We have a duty to promote efficiency in the use of electricity and gas and sustainable long-term energy supplies with due regard to the environment and vulnerable consumers. The NISEP delivers energy efficiency measures with 80% of the funding aimed at vulnerable/low-income consumers.

Over £8 million of NISEP funding was spent in 2015-2016 (the most recent year of reported data). The schemes delivered just over 643 GWh of energy saved and £85.96 million of gross consumer benefit (net present value, over the lifetime of the measures).

For the year 2016-2017, approximately £9.37 million in NISEP funding (this figure includes underspend from previous years) was made available for schemes. Post-implementation reviews will verify the outputs and benefits from these schemes over the coming months.

### Key NISEP numbers (2015-2016):

- £8,059,299 was spent on NISEP schemes overall;
- total lifetime energy savings were a substantial 643.412 GWh;
- 111,766 tonnes of lifetime carbon savings;
- £85,960,332 in lifetime gross consumer benefit savings; and
- £182,462 was earned in incentives for over achievement on energy saving targets.



As well as protecting consumers, particularly those who are vulnerable, energy efficiency and affordability are key concerns. NI is expected to contribute energy savings each year to the UK-wide energy efficiency target as required by the EU's Energy Efficiency Directive.

The NISEP is currently the only NI energy efficiency scheme which contributes to NI's European energy efficiency target. In August 2016, following a request from the DfE Minister, it was agreed to extend the NISEP to March 2018.

As the lead NI department for implementation of the Energy Efficiency Directive, DfE is taking forward development of the EnergyWise scheme. This scheme was intended to commence in April 2017 but has now been postponed to April 2018. EnergyWise is also supported by the NI Executive Office and the DfC through an interdepartmental project board. We are also represented on this board.

EnergyWise should provide a means of accessing support for groups including those which would have otherwise benefitted from NISEP support.

We have been working with DfE to facilitate the development and funding of EnergyWise and a joint consultation exercise was carried out in May/June 2016.



## Supporting renewable development

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We are committed, wherever appropriate, to playing our role in increasing the proportion of electricity generated from renewable sources.

The percentage of electricity consumption from renewable sources rose to 25.4% by 31 March 2017.

We are responsible for administration of the NIRO. The NIRO is a statutory requirement on electricity suppliers to source an increasing amount of their electricity from renewable sources. Suppliers can meet their obligation by either presenting renewable obligation certificates (ROCs) or paying into a buyout fund. ROCs are issued directly to renewable generators.

During the year 2015-2016, 6,437 additional generating stations in NI received ROC accreditation (98% of which were micro generators, mostly solar photovoltaic) with a capacity of 91 MW. 69% of ROCs issued in NI went to onshore wind generating stations. Three million ROCs were issued to NI generators in 2015-2016.

The NIRO closed to all new generation on 31 March 2017, with exceptions to closure in the form of grace periods for eligible projects as set out in the closure legislation. For example small-scale onshore wind projects may continue to accredit up to 31 March 2019 if they meet the criteria for all three available grace periods.

We have been working closely with OFGEM and DfE to give effect to the decision to close the NIRO to new generation and manage the associated issues.

## The climate change levy exemption scheme

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In its 2015 Budget, the government announced its intention to withdraw the exemption from the Climate Change Levy (CCL) for renewable electricity from 1 August 2015. This change meant that we did not issue Levy Exemption Certificates (LECs) for electricity generated by renewable technology stations after 31 July 2015.

Electricity utilities can continue to use LECs to apply the exemption until 31 March 2018.

## Providing fuel mix information to consumers

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Electricity suppliers are required in billing information and promotional materials to specify the contribution of each energy source to the overall fuel mix used over the previous year. This requirement derives from the EU's IME3 directives. In addition, suppliers are required to provide information on the environmental impact of their electricity. We work with colleagues in CER and the Single Electricity Market Operator (SEMO) to ensure suppliers provide fuel mix information to their customers.







## 9. Efficient and effective regulator

### In brief

- We achieved high levels of performance in meeting our business plan targets.
- Other indicators around our payment of suppliers and staff absence rates compare favourably with similar organisations.
- We have made significant progress in implementing our 'UR People' human resource strategy.
- We launched an enhanced intranet and a new website to improve the user experience for internal and external audiences.



# 9. Efficient and effective regulator

## Making the best use of our resources

### Our finances

As a non-ministerial government department, our funds are voted by the NI Assembly. A summary of our financial performance is included at Appendix 1.

Table 1 is an overview of the key figures. Our statutory accounts can be obtained from the Stationery Office or from our website ([www.uregni.gov.uk](http://www.uregni.gov.uk)). Most of our costs are collected from annual fees paid by electricity, gas and water licensees.

**Table 1: Overview of financial position**

Expenditure	Actual (£000s)
Operating costs (gross)	10,219
Income	9,955
Operating costs (net)	<b>264</b>

We are committed to the prompt payment of bills for goods and services received. During 2016-2017 the standard payment was 97% of undisputed invoices within 10 days. This was achieved in seven months of the year.

### Developing our staff

Our staff group is diverse and mostly directly recruited. We also have a small group of secondees from the wider NI Civil Service (NICS).

During 2016-2017 our absence rate was 1.69% (4.3 days per employee- based on employee numbers at 31 March 2017) which is below the NICS rate (NICS absence rate in 2015-2016 was 5.3% or 11.7 days lost per staff year).

Without our staff's continuing commitment we can't do our job and so we are always ready to support their development. This includes providing in-house training, such as specialist training in regulatory disciplines, work related higher education and other development opportunities. We also facilitate sharing best practice and current thinking through regulatory networking and facilitate inward secondments and student placements.

We periodically gather the views of our staff on working for us. The findings of a recent staff survey were broadly positive and helped us consider how we might enhance arrangements in areas such as managing performance and development opportunities. Moreover, the findings also helped inform our planned work on improving internal communications.

We launched an enhanced intranet, 'Utility Room', to promote this media as a source of information for staff. Our Chief Executive, for instance, is now also authoring a weekly blog for the intranet. A new group has also been established to promote better internal communications.

We are a member of Business in the Community and offer opportunities for our staff to participate in activities that will have a wider positive impact.

## Performing effectively as a regulator

### Corporate Strategy 2014-2019

At the end of the third year of our corporate strategy it is clear that we continue to make



progress against the key performance indicators.

A report on progress to achieve our corporate strategy objectives is included at Appendix 1.

## Forward Work Programme 2016-2017

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Our plan sets out the key projects that we intend to undertake each year.

Overall, we achieved or partially achieved 87% of the time-limited tasks to be completed during 2016-2017.

Appendix 1 also includes an overview of progress against the Forward Work Programme (FWP) projects for 2016-2017. We report on the status of each project (in terms of achievement) on our website [www.uregni.gov.uk](http://www.uregni.gov.uk).

## Regulatory action

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Following an investigation in March 2016 into GNI (UK) Limited, we confirmed our decision to

impose a penalty of £500,000 for its failure to comply with its gas conveyance licence.

We also carried out a number of informal investigations and as a result of regulatory action we:

- accepted undertakings from a number of licensees during the year with remedial action to secure licence compliance; and
- directed suppliers to pay approximately £60,000 to a number of charities as a result of compliance and enforcement work.

We also hold competition powers concurrently with the CMA. In June 2016 we consulted on guidance relating to the application of our competition powers. The final guidance was published in September 2016 on our website. Among other things the guidance contains information for stakeholders about how we undertake and apply our competition powers and duties. It also sets out what businesses should expect if they are subject to investigation or enforcement action. More generally, the guidance also aims to promote awareness of how competition law applies to the electricity, gas and water and sewerage industries in Northern Ireland and the importance of compliance. This is important for the identification of future competition complaints.

We also availed of CMA expertise to assist with the development of draft competition guidelines published in June 2017.

We received one complaint during the year which the complainant subsequently decided to pursue via the Competition and Appeals Tribunal (CAT).

We also have a quasi-judicial role with regard to the determination of industry complaints and disputes. One connections dispute determination was subsequently subject to judicial review and remitted back to us.





We have worked with DfE to scope the extent to which energy licences can be simplified and have taken a number of steps to standardise price control timetables and licence conditions. We wish to do further work in this area and will continue to identify opportunities to standardise energy licences in so far as possible.

### Enhancing how we work

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Of course the delivery of our corporate strategy depends not just on what we do but also relies on how we do things.

We have made significant progress on implementing 'UR People', our HR strategy. Its purpose is to set goals across six key themes on how we look after and develop our staff.

Achievements have included: the development and roll-out of a revised competence framework and simplified performance management processes; new arrangements for identifying, co-ordinating and delivering priority training; and talent needs. We have also focused on improving business resilience and flexibility

through measures to develop our succession planning capability.

We also considered our resilience to deal with an emergency event arising in the office (such as loss of facilities) and externally. This led to us testing, and subsequently revising, our business continuity and crisis communication plans. A test scenario was developed and played out in order to assess the effectiveness of management and communications with staff and stakeholders should such a circumstance arise.

Another key plank of implementing our corporate strategy is around improving our communications.

Our stakeholder engagement programme remains central to our communications approach. We have continued to expand the opportunities for us to reach out to more organisations than ever.

The need to develop ongoing engagement is also key to our stakeholder programme.





For instance, we plan ongoing meetings with panels comprising consumer and business representative organisations.

Efforts to improve our online communications have also moved forward. We launched a new website in October 2016 which provides a better 'shop window' for our work. As well as being technically more advanced, the new website gives us greater flexibility for publishing and manipulating content. We hope that the new website will provide a better user experience and the feedback has been positive so far.

We have participated in the UK Regulators' Network (UKRN) and working groups. This has led to our involvement in projects ranging from the preparation of a guide for investors, to cost of capital and affordability projects. UKRN provides a valuable opportunity to both share and learn from best regulatory practice.

Additionally, we play an active role in the UKCN which aims to promote competition and to prevent anti-competitive behaviour. We also meet CMA quarterly to discuss competition-related issues and contribute to the CMA's annual concurrency report.

## Corporate governance

### Governance and audit

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The Department of Finance (DoF) appoints the chair and members of our board. There have been no changes to the membership of the board in this period. Our chief executive is the accounting officer and a member of the board.

We are accountable to the NI Assembly and produce an annual report which DfE lays before the Assembly on our behalf. Our decisions are subject to external review by, for example, the CMA and the courts. NI Assembly committees may ask for evidence to be given on matters relevant to their work.



Our internal audit is outsourced to Capita Consulting. Areas reviewed during the past year included IT, budgetary control, business continuity, communications, compliance with statutory obligations and procurement. We work to implement audit recommendations as soon as possible and again achieved a 'satisfactory' overall assurance rating for 2016-2017.

### Board and board sub-committees

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Our board formally met nine times during 2016-2017.

Our board continued to undertake a planned series of meetings and activities with a diverse range of stakeholders. This included holding board meetings, visiting utility assets and meeting with stakeholders. Board members and external guests also provided briefings on a range of topics.

There were four meetings of our audit and risk committee during the year. Its membership comprised:

James Oatridge (independent chair), Richard Rodgers and Alex Wiseman. The chair of the board may also attend meetings. The Chief Executive, as Accounting Officer, and Director of Corporate Affairs also attend, as do other members of the executive team by



invitation. The NI Audit Office and the Head of Internal Audit have standing invitations to attend meetings of the committee.

Our remuneration committee met twice. Its membership comprised Bill Cargo (chair), Teresa Perchard and Jon Carlton. The chair of the board may also attend. The Chief Executive, as Accounting Officer, and Director of Corporate Affairs also attend as do other members of the executive team by invitation.

During the past year our Board Advisory Forum (BAF) met five times. Membership comprises non-executive directors and senior staff. The BAF allows the office to benefit from the advice and guidance of non-executive directors as well as challenge/scrutiny on the key policy issues.

The SEM Committee meets monthly to take decisions in respect of the exercise of relevant functions of CER or us in relation to a SEM matter on behalf of each regulator. NI's current SEM Committee members, appointed by DfE and the Department of Communications, Climate Action and the Environment (DCCA) are Jenny Pyper, Bill Emery and Jon Carlton.

Our senior management team continued to meet weekly. In addition, there were regular SMT workshops throughout the year on a series of strategic organisational issues.

## Information technology and governance

Our information management committee oversees governance arrangements for the provision of secure and efficient information storage and transfer.

During the year, progress was made on the design of a revised file plan which reflects the new cross utility structure of the office and which will, when completed, facilitate eventual migration to an electronic data records management system.

All of our desktop, telephony and IT infrastructure services are provided by IT Assist, the NICS managed service provider of IT services. This provides a secure, fully managed IT support service. Redeveloped SEM and UR websites which have been delivered through in-house NICS resources. We continue to work with IT Assist to identify further opportunities to avail of new technologies including printing, mobile technology and have introduced new video conferencing facilities which will greatly enhance the efficiency of our working particularly with CER and lead to a significant reduction in travel required.

## Freedom of Information

In 2016-2017 we received seven requests under the Freedom of Information Act. All but one of the requests were issued within the statutory period prescribed by the Act.



# Appendix 1 – Performance report





## (i) Financial report for the year ended 31 March 2017

### Central government financing

£264k was borne by central government in respect of expenditure on areas not covered by current licences such as management of the CCL exemption scheme, the electricity (guarantees of origin of electricity produced from renewable energy sources) scheme and the Renewables Obligation Order (NI) 2005 scheme and notional costs.

### Licences

A breakdown of licence fee income is set out in Table 2 below.

Table 2: Licence fees by utility	Total licence fees (£000s)
Electricity	5,926
Gas	2,917
Water	379

We also collect fees on behalf of CCNI. This is for work done under the Energy (NI) Order 2003 and Water and Sewerage Services (NI) Order 2006. The total fees collected were £630,000, of which £185,530 was attributed to electricity, £139,470 to gas and £305,000 to water.

### Accounts

The statement of comprehensive net expenditure shows that salary costs increased from the previous year (£4,939,000 in 2015-2016 against £5,192,000 for 2016-2017). This reflected the office operating largely at full complement for the year, increase in employer

national insurance costs as a result of the removal of the contracted out rate, additional staff to resource the I-SEM project and annual pay increments. Other costs increased primarily as a result of the requirements needed to progress development of the I-SEM, the cost of defending a judicial review and price control referral costs in 2016-2017. The percentage of staff costs to total costs in 2016-2017 of 51% represents a decrease from that in 2015-2016 of 60%.

Our gross expenditure in pursuit of our objectives as detailed in the statement of operating costs by operating segments (see Table 3) was as follows.

Table 3: Expenditure by segment	2016-2017 (£000s)	2015-2016 (£000s)
Segment 1 (electricity)	6,822	5,415
Segment 2 (gas)	3,005	2,352
Segment 3 (water)	392	487

More detailed financial information on costs can be found in our accounts.



## (ii) Progress during 2016-2017 against Corporate Strategy 2014-2019 key performance indicators

Objective	Key performance indicators	Progress during 2016-2017
1: Promoting effective and efficient monopolies	1. Network utilities will be able to demonstrate their excellence in asset management, which is measured against other utility companies.	<ul style="list-style-type: none"> <li>• NIEN, Gas Distribution Networks (GDNs) and NI Water have now provided reports on asset management including work with consultants to achieve externally validated standard compliance e.g. PAS55. NIEN RP6 submission now received on asset management and development objectives reflected in GD17 final determination. Asset management reports now included within Gas Annual Cost Reporting. Measurement of asset management excellence reflected within our benchmarking and subsequent allowances.</li> </ul>
	2. Network utility costs and performance measure favourably against the top quarter of appropriate comparable companies	<ul style="list-style-type: none"> <li>• Benchmarking data submitted by NIEN states they are in top quartile and we will review this in RP6. Have worked effectively with NIEN to improve approach to electricity connections/manage impact of changes in government policy.</li> <li>• GD17 benchmarking models set out in final determination and engagement with GDNs to continue as part of annual performance reporting.</li> <li>• Benchmarking of GDNs opex in GD17 showed some catch up required to meet top quartile and we will monitor this in cost and performance reports. Developed licence conditions for improved clarity on connections to gas networks.</li> <li>• NI Water has made progress on efficiency but given funding limitations is unlikely to be able to demonstrate top quartile behaviour in short-term. Work on updated benchmarking approach with Ofwat to continue in 2017-2018.</li> </ul>
	3. Our regulatory tools have helped make sure that regulated utilities drive further effective innovation, such as smart grids and meters.	<ul style="list-style-type: none"> <li>• NI Water, NIEN and GDN price controls will incentivise innovation but leave operational decisions up to companies. NIEN has submitted requests in RP6 for trials and we will review against published criteria.</li> <li>• We have continued to develop reporting from NIEN to suppliers on meter replacement programme.</li> </ul>
	4. Regulated companies deliver the outputs required by our price control decisions, on time and within budget.	<ul style="list-style-type: none"> <li>• Price controls and reporting will monitor this. NI Water cost and performance reports published annually with work continuing on NIEN and GDNs. Outputs clearly set out in GD17 FD. NIEN has proposed various outputs and KPIs in its submission and will work on these to ensure outputs are clearly set out in RP6. We have identified an FWP project for 2017-2018 in respect of developing cost and performance reports across all network companies</li> </ul>
	5. Network gas extensions have been delivered, leading to over 250,000 connections by 2019.	<ul style="list-style-type: none"> <li>• Target on track to be met early (by 2018) with 228,000 connections up to the end of 2016.</li> </ul>



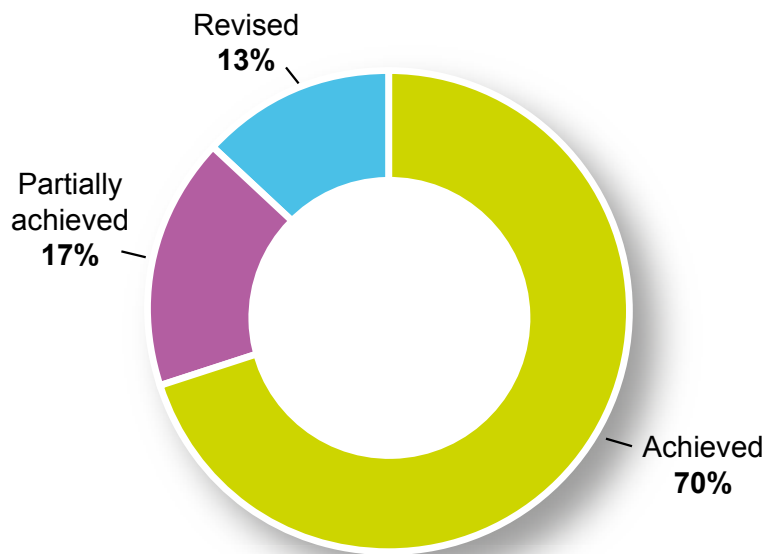
Objective	Key performance indicators	Progress during 2016-2017
2: Promoting competitive and efficient markets	1. The I-SEM is delivered on time and is consistent with the EU target model.	<ul style="list-style-type: none"> <li>• Programme continues to be on target with outcome of stocktake exercise meaning that the market systems will be ready by the end of 2017 with market trialling and testing before go-live in May 2018.</li> </ul>
	2. The Retail Energy Market Monitoring (REMM) system is in place and reported on each year, increasing customer protection.	<ul style="list-style-type: none"> <li>• REMM is now formally in place and starting to be reported upon by suppliers and Distribution Network Operators (DNOs). We are awaiting further quarterly returns and are receiving the first Annual Returns. We plan to commence looking at potential publication issues later this year.</li> </ul>
	3. The effectiveness of competition in our energy markets has been assessed and we have put in place the associated regulatory and policy frameworks.	<ul style="list-style-type: none"> <li>• Phase 2 of our review of competition is now completed.</li> <li>• A follow-up project on small-business protection is included in FWP 2017-2018, given outcomes and CMA review in GB.</li> <li>• The SEM MMU continues to monitor market participant behaviour and investigate.</li> <li>• There is continued work on EU gas network code compliance requirements. The implementation guidelines for contestability in electricity connections have been approved. Contestability in place for distributed connected generation above 5 MW.</li> </ul>

Objective	Key performance indicators	Progress during 2016-2017
3: Protecting consumers	1. That there is an increase in the proportion of generation from renewables between 2014 and 2019 in line with the NI Executive's targets.	<ul style="list-style-type: none"> <li>Official figures show that 25.4% of electricity consumption in NI was from renewable sources (March 2017 figure). Government target of 40% by 2020.</li> <li>DS3 project to facilitate more wind to be deployed is also progressing to programme.</li> </ul>
	2. The immediate risk to electricity security of supply has been addressed by 2016 and longer-term concerns are dealt with by working with DfE and SONI.	<ul style="list-style-type: none"> <li>Immediate risk addressed via provision of short term local additional capacity by AES. Longer-term risk to be addressed by north south interconnector. Planning decision reached on southern side of north-south electricity interconnector – planning inquiry on northern side in progress.</li> <li>Engaged with PTL and GNI in relation to the Transportation Arrangements for securing gas transportation for NI post 2021 (and a proposed project for FWP 2017-2018).</li> <li>I-SEM CRM being designed to take account of local capacity needs.</li> </ul>
	3. We have delivered the CPS and have put in place revised energy supplier codes of practice.	<ul style="list-style-type: none"> <li>CPS strategy published in 2016 along with Five Year Action Plan. Year 1 (2016-2017) projects all underway, though some will be delayed into 2017-2018. Year 2 (2017-2018) project delivery will be challenging.</li> <li>Supplier minimum standards codes now complete and in place. New Theft Code and Bills/Statement Code being developed under the CPS Action Plan. Considered requirements for GSS review to align with CPS delivery in following year, RP6 and connections review for electricity network.</li> </ul>
	4. Consumers are able to make informed decisions and there is a high level of satisfaction with customer protection measures.	<ul style="list-style-type: none"> <li>Work has progressed with CCNI on customer switching capabilities, price comparison website and consumer education projects around switching and prices.</li> <li>A Consumer Summit is planned for Q4 2017-2018 under the CPS umbrella.</li> <li>Formal consumer research is planned for 2018-2019 (under CPS umbrella) to assess consumer attitudes, behaviours, satisfaction and areas of ongoing concern re retail market and supplier regulation.</li> <li>Regular formal and informal meetings are held with CCNI, Trading Standards, third sector, etc. to pick up areas of concern emerging and any compliance issues.</li> </ul>





### (iii) Overall outcome for Forward Work Programme projects 2016-2017 (23 projects)



Partially achieved projects (four projects)	
Project	Report
Developing a market monitoring framework for the I-SEM (post implementation)	The go-live date for I-SEM is 23 May 2018 and work on developing the market monitoring framework continues to be progressed.
Implement a five-year CPS year one priorities	Some projects achieved but several delayed and will be undertaken in year two of CPS implementation.
Work with DfE and SONI to implement measures to address electricity security of supply	Some limited changes to licences have been undertaken.
Securing gas transportation arrangements for NI post 2021	Engagement with key stakeholders continues and additional time will be required to conclude discussions.

Revised projects (three projects)	
Project	Report
Review electricity and gas connections policies	After initial progress, work delayed due to a dispute. Likely that work will be completed in 2018.
Progress the implementation of the Capacity Remuneration Mechanism (CRM) for I-SEM	The first auction for the CRM is now scheduled for December 2017.
Progress the I-SEM project to ensure delivery and compliance with the EU target model	Following a stocktake, I-SEM will now go-live in May 2018.



# Appendix 2 – Glossary and list of abbreviations



# Glossary of terms

**Annual Capacity Payment Sum** – revenue earned by generators in the Single Electricity Market in return for the provision of available capacity.

**Capital expenditure** – also referred to as capex. Funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

**Cost and Performance Report** – an annual report that outlines our independent assessment of how NI Water has performed against efficiency targets and key performance indicators outlined in their price control.

**DS3** – an initiative to deliver a secure, sustainable electricity system. This initiative involves us, the Commission for Energy Regulation and the transmission system operators in NI and RoI and aims to: make sure there is a constant electricity supply; and help meet renewable targets relating to electricity. The three main work areas relate to system performance, system policies and system tools.

**GUAs** – Generator Unit Agreements are long-term contracts between two parties, one who generates electricity for the purpose of sale and another one who buys the electricity also referred to as Power Purchase Agreements (PPAs).

**High level design** – in relation to the I-SEM, it is a set of principles that underline the trading arrangements of the wholesale electricity market.

**LECs** – Levy Exemption Certificates are issued through the CCL scheme to accredited generators in NI and the RoI.

**NIRO** – the NI Renewable Obligation is a statutory requirement on electricity suppliers to source an increasing amount of their electricity from renewable sources.

**NISEP** – the NI Sustainable Energy Programme (NISEP), which was previously known as the Energy Efficiency Levy (EEL) provides funding for energy efficiency and renewable energy schemes. It will close in April 2017.

**Operating expenditure** – also referred to as opex. Ongoing cost for running a product, business or system.

**Quarterly Transparency Reports (QTR)** – quarterly reports that provide a range of information about the retail electricity and gas markets in NI.

**Renewables Obligation Certificates (ROCs)** – are green certificates issued by us to operators of accredited renewable generating stations for the eligible renewable electricity they generate. Operators can then trade the ROCs with other parties, with suppliers ultimately using the ROCs to demonstrate that they have met their obligation.

## Abbreviations

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**AGU** – Aggregated Generator Unit

**BAF** – Board Advisory Forum

**BGTL** – Belfast Gas Transmission Limited

**CAT** – Competition and Appeals Tribunal

**CCL** – Climate Change Levy

**CCNI** – Consumer Council for Northern Ireland

**CEAP** – Consumer Engagement Advisory Panel

**CEER** – Council for European Energy Regulators

**CEOG** – Consumer Engagement Oversight Group

**CER** – Commission for Energy Regulation

**CERRE** – Centre on Regulation in Europe

**CM/SAT** – Customer Measures/Satisfaction Working Group

**CMA** – Competition and Markets Authority

**CPM** – Capacity Payment Mechanism

**CPS** – Consumer Protection Strategy

**CRM** – Capacity Remuneration Mechanism

**DCCA** – Department of Communications, Climate Action and the Environment

**DETI** – Department for Enterprise, Trade and Investment

**DfC** – Department for Communities

**DfE** – Department for the Economy

**DfI** – Department for Infrastructure

**DNO** – Distribution Network Operator

**DoF** – Department of Finance

**DSU** – Demand Side Unit

**EU** – European Union

**fe** – firmus energy

**FWP** – Forward Work Programme

**GB** – Great Britain

**GDN** – Gas Distribution Network

**GD17** – Gas distribution price control from 2017

**GNI (UK)** – Gas Networks Ireland (UK)

**GSS** – Guaranteed Standards of Service

**GT17** – Gas transmission price control from 2017

**GWh** – Gigawatt hours

**HR** – Human resources

**IME3** – Third Internal Energy Market Package

**I-SEM** – Integrated Single Electricity Market

**LECs** – Levy Exemption Certificates

**MMU** – Market Monitoring Unit

**MWh** – Megawatt hour

**MWs** – Megawatts

**NEMO** – Nominated electricity market operator (for the I-SEM)

**NI** – Northern Ireland

**NICS** – Northern Ireland Civil Service

**NIEN** – Northern Ireland Electricity Networks

**NIRO** – Northern Ireland Renewable Obligation

**NRA** – National Regulatory Authorities

**NISEP** – Northern Ireland Sustainable Energy Programme

**Ofgem** – The office of Gas and Electricity Markets

**OPA** – Overall Performance Assessment

**PAC** – Planning Appeals Commission

**PC15** – Price Control (for NI Water) 2015-2021

**PC21** – Price control for NI Water from 2021 onwards

**PNGL** – Phoenix Natural Gas Limited

**PPB** – Power Procurement Business

**PSNI** – Police Service for NI

**PSO** – Public Service Obligation

**PTL** – Premier Transmission Limited

**QTRs** – Quarterly Transparency Reports

**REMM** – Retail Energy Market Monitoring

**RGLG** – Renewables Grid Liaison Group

**RIGS** – Regulatory Information and Guidance

**ROCs** – Renewable obligation certificates

**RoI** – Republic of Ireland

**RP6** – Regulatory Price Control Period 6

**SEM** – Single Electricity Market

**SEMC** – Single Electricity Market Committee

**SEMO** – Single Electricity Market Operator

**SGN** – Scotia Gas Networks

**SMP** – System marginal price

**SoLR** – Supplier of Last Resort

**SONI** – System Operator of Northern Ireland

**TSOs** – Transmission System Operators

**UR** – Utility Regulator

**UKCN** – UK Competition Network

**UKRN** – UK Regulators’ Network

**WTL** – Western Transmission Limited













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