

# Corporate Strategy

2009 - 2014



# Foreword

The Northern Ireland Authority for Utility Regulation (the Utility Regulator) exists to promote the short-term and long-term interests of Northern Ireland's electricity, gas and water and sewerage consumers through well run, sustainable, utility services.

Our work is about protecting the interests of individual consumers, their families, friends and communities. The people who work for the Utility Regulator are consumers too. This makes us more determined than ever to make sure that utility companies keep their prices as low as possible, are efficiently run, effective, responsive to consumers and that they invest wisely in their businesses to provide best quality, modern and sustainable services for Northern Ireland.

As an organisation we have come a long way. Our organisation has evolved from what was called OFREG to become the Utility Regulator, with the additional water and sewerage responsibilities from 1 April 2007.

Our first Corporate Strategy is a very significant milestone for the organisation. Because of its importance, the process that led to the publication of the Strategy was thorough, transparent and above all else, was reflective.



We consulted extensively with external stakeholders throughout the development of the Strategy and we hope that their contribution is adequately reflected in the final publication. It is also important to record the input of the Board and staff to the Strategy, whose contribution has enriched the document.

Ambition is at the heart of the Strategy. Our programme of fundamental reform, across three different industries, is as ambitious as any economic regulator in the UK or Ireland. The Strategy is our public statement of intent about the high level priorities which will be central to our work in the period 2009-2014. We identify seven key priorities that provide a framework for the workstreams, programmes of work, projects and actions that we will undertake in the period to 2014.

As well as delivering the fundamentals of our regulatory work (such as in relation to price controls), the Strategy also sets out some innovative workstreams. To highlight several examples: we intend to implement decisions relating to sustainability and retail competition, to assess the best use of smart metering, to deliver an all-island energy programme, and to develop renewable generation opportunities.

We are conscious that fulfilling our ambition is based on the co-operation and partnership of our many stakeholders and partners. It is also contingent on the commitment and professionalism of our staff, who make the achievement of our aspirations possible. This Strategy belongs to them.

Peter Matthews  
Chairman, Northern Ireland Authority  
for Utility Regulation

# Table of Contents



---

	<b>Page</b>
<b>Executive Summary</b>	<b>6</b>
<b>Corporate Strategy 2009 to 2014</b>	<b>18</b>
<b>1.1 Purpose of this Document</b>	<b>19</b>
<b>1.2 Who we are and What we do</b>	<b>22</b>
<b>1.3 Strategy Challenges and Drivers</b>	<b>27</b>
<b>1.4 Our Strategic Priority Themes</b>	<b>35</b>

# Executive Summary

## 1.

The development of this Corporate Strategy marks a watershed for the Utility Regulator. During 2008, for the first time in our evolution, we set out to transparently plan, consult on, agree and then undertake a set of strategically considered themes and priorities. This Corporate Strategy is the outcome of that process. We recognise that thinking strategically in conjunction with our wide spectrum of stakeholders is a necessary requirement for achieving our duties and we hope that the development of our Corporate Strategy has facilitated this thinking process and allowed a constructive and transparent dialogue with our stakeholders.



## Our organisation

### 2.

We are a non-Ministerial Government Department set up to protect consumers by ensuring that the utility industries in Northern Ireland are regulated and developed within the strategic policy parameters set out by Ministers and in the relevant legislation.

### 3

At the heart of our duties and functions is the protection of the interests of water, sewerage, gas and electricity consumers in Northern Ireland. We aspire to the following mission, vision and values.

### Our mission:

**Value and sustainability in energy and water.**

### Our vision:

**We will make a difference for customers by listening, innovating and leading.**

## Our values:

**Be a best practice regulator: Transparent, Consistent, Proportional, Accountable and Targeted.**

**Be a united team – One Team One Mission.**

### **Be collaborative and co-operative**

*One organisation, many strengths*

We believe in partnership and collaboration which enables us to be flexible and responsive. We create better solutions in teams rather than as individuals, so we do not compete against each other. Instead, we share a common approach, where all opinions and options are considered. We believe in helping and learning from each other: We give each other support. We share our successes.

### **Be Professional**

*Grow and learn as professionals*

This means we share a clear sense of professional commitment, enthusiasm, and direction. We are dedicated to quality, timeliness and excellence in our service. To support learning and growth, we value an environment that encourages intellectual curiosity, debate, learning, review and evaluation.

As a unified regulator, we can use our sectoral knowledge and expertise to add value to our regulatory work. This enables us to be imaginative and flexible in the way we respond to the issues we face.





## **Listen & Explain**

### *Open and straightforward*

We value open dialogue and debate. We share information openly, honestly and widely across a broad spectrum, unless confidentiality is required; we consider and respond to those expressing different perspectives on relevant issues.

## **Make a Difference**

### *Add Value, be accountable for performance*

The Utility Regulator fosters a “pride of ownership”. We are encouraged as individuals to make a difference, to add value and take personal responsibility for what we are tasked to do. This means we are focussed on the outcome.

Our work is targeted, appropriate and efficient and provides value for money. We are accountable for our actions and decisions to ourselves, our Board, our stakeholders.

### *Contribute to Society*

We recognise the impact we have on the society and environment around us. We believe in delivering value and benefit for today and the future.

## **Act with integrity**

### *We act with integrity*

We are reliable and trustworthy – in both professional and interpersonal matters. We don't reveal sensitive information. We tell the truth as we see it. We stay independent. Our actions are consistent with what we say is important.

## Our strategy

### 4.

Through transparent consultation and analysis we have determined the following **key drivers and challenges** for our strategy:

- Volatile prices to consumers and the need for concerted action
- Boosting competition in the retail and wholesale sectors
- Environmental sustainability
- Security of supply issues
- The need to “harmonise” our strategy with others
- The growing importance of EU (European Union)-level factors to our work
- Technological and information advances
- The need to run a fit-for-purpose office

### 5.

In light of these drivers/challenges and associated issues, we have identified 7 key strategic themes which, taken together, frame the direction of our proposed Corporate Strategy.

### 6.

As an overall goal, **the protection of consumers is at the heart of what we do** and why we exist. It is the broad umbrella across our duties and functions. However, to make this more concrete and deliverable in terms of a Corporate Strategy and associated Work Programmes, this high level purpose can be pared down into a number of key themes determining our overall strategy.

- A. Protecting consumers by ensuring utility monopolies act efficiently.
- B. Environmental Sustainability and Security of Supply.
- C. Protecting vulnerable consumers.
- D. Boosting competition in wholesale and retail sectors.
- E. Harmonising energy markets and use of infrastructure.
- F. Evolving our Regulatory Framework.
- G. Our own Organisational development.



## 7.

We are aware that it is potentially the case that at times **there may be tension between our strategic priorities**. We wish to note explicitly that it is our intention to seek to identify these tensions where they arise and, through consultation and work with our stakeholders, transparently and realistically tackle these tensions in delivering our Workplans. We also wish to emphasise the point that we will work to ensure that our Strategy and priorities harmonise with other key stakeholders, notably in relation to the Strategic Energy Framework under review by the Department of Enterprise, Trade and Investment (DETI) and the review of water and sewerage charging issues under consultation by the Northern Ireland Executive.

## How our Strategy feeds our Forward Work Programme

### 8.

Published alongside this Corporate Strategy is our latest annual Forward Work Programme (FWP), for 2009/10 (see [www.niaur.gov.uk](http://www.niaur.gov.uk)). This and future FWPs will translate these strategic themes into firm one-year actions and commitments.

### 9.

The FWP has been developed with the benefit of the Strategy consultations undertaken in 2008 and in light of the priorities identified in our final Corporate Strategy document. We have finite resources to deliver our statutory duties and functions and to contribute to the delivery of policy objectives set by Government. We have to constantly assess competing priorities and seek ways to work more nimbly and smarter. This also requires us to carefully consider and select those actions which we consider to be priorities for inclusion in our FWP.

### 10.

Key priority areas include notably:

- the protection of consumers through timely and effective price controls, notably as regards the new water company and several key energy areas: the impact of the

recent global financial crisis on our regulatory approach will also need to be assessed.

- fostering enhanced levels of competitive pressures in our energy markets at both the wholesale and particularly retail levels. In relation to the latter, we intend to deliver, with CER as necessary, on the actions set in our Energy Retail Competition Decision Paper of 8 November 2008 (see [www.niaur.gov.uk/uploads/publications](http://www.niaur.gov.uk/uploads/publications)) and we have set up a new dedicated unit to deliver on these actions.
- helping to deliver environmental sustainability through a large number of actions discussed and identified in our Sustainability Strategy decision paper issued on 8 November 2008 (see [www.niaur.gov.uk/uploads/publications](http://www.niaur.gov.uk/uploads/publications))
- Continuing to foster regulatory co-operation with the energy regulator in the Republic of Ireland and with the various utility regulators as necessary. In particular our continuing work on developing co-operation and harmonisation in terms of our electricity markets and common arrangements for gas will take priority.



## How we will make a difference

### 11.

Over the 5 year period of the Corporate Strategy, in terms of the seven key Strategic priorities identified above, we will seek to achieve the following:

#### What we want to do

To ensure that monopolies act efficiently and consumers are protected

To regulate under an environmental sustainability perspective, which includes the challenge of maintaining security of supply

#### How we will do it

- Price controls: scrutinizing and controlling the costs and prices of the monopoly regulated utilities.
- Guarantee of Standards: determination and control of regulated standards of performance.
- Assess the implications of the recent financial crisis for our regulatory approach.
- Consideration of the role and future of the “Mutualised” Model.

- Delivering the plan set out in our Sustainability Decision Paper (issued in November 2008).
- Meeting relevant EU legislation and targets.
- Promoting the further development of natural gas and encouraging gas storage options.

<b>What we want to do</b>	<b>How we will do it</b>
	<ul style="list-style-type: none"><li>• Analysing the future role and best use of smart metering technology and the implications for “smart networks” and demand side management and time of day charging regimes.</li><li>• Delivering enhanced levels of renewable generation.</li><li>• Developing comprehensive water resources management plans and setting targets for achieving NI W’s economic level of leakage.</li></ul>
To protect vulnerable consumers	<ul style="list-style-type: none"><li>• Working with wider Government to protect consumers from the impact of rising charges.</li><li>• Participating in the Fuel Poverty Taskforce.</li><li>• Developing a Social Action Plan.</li><li>• Assessing issues and options around social and affordability tariffs.</li></ul>



## What we want to do

To enhance competition in energy regulated sectors

To further harmonise the energy markets and optimise the use of the infrastructure

## How we will do it

- Delivering on the decisions set up in our Retail Decision Paper (issued November 2008).
- Ensuring that the Single Electricity Market (SEM) wholesale electricity arrangements are functioning properly.
- Considering how best to promote a more developed and liquid hedging and contract market within SEM.
- Reviewing options to consider the future of the long-term Power Purchasing contracts.

- Continue working with the relevant Government departments, CER and the industry stakeholders.
- Developing market synchronisation and retail harmonisation in both electricity and gas markets North and South.
- Delivering on the all-island energy work programme, taking account of the DETI Strategic Energy Framework and the SEM Committee's workplan.
- Developing renewable generation opportunities through optimised grid planning and operation.

**What we want to do**

To influence future strategy and work prioritisation in the light of EU policy and developing competition

To improve our performance

**How we will do it**

- Ensuring we take account of the policy and regulatory requirements.
- Putting into place actions to deliver on the required policies and goals.
- Working with stakeholders to understand the consequences of these Directives and developing the appropriate responses.

- Considering afresh our range of powers and functions on competition and understanding if they have applicability in our framework.
- Continuing the improvement of our governance and business processes.
- Ongoing development of our strategic approach to policy and actions.
- Revision of HR and communication policies.
- Demonstrating value for money.





# Corporate Strategy



## 1.1 Purpose of this Document

### 1.1.1.

The aim of this document is to present the 5 year Corporate Strategy of the Utility Regulator.

### 1.1.2.

The development of this Corporate Strategy marks a watershed for us. For the first time in our evolution we set out to formally and transparently plan, consult on, agree and then undertake a set of strategically considered themes and priorities. The Corporate Strategy (2009-2014) will thus set the overarching framework for our future annual Forward Work Programmes (FWP). The first example of this is the FWP for 2009-10 which is being launched to coincide with this release of this Corporate Strategy.

### 1.1.3.

The development of our Corporate Strategy is an important and timely exercise for us for three reasons in particular.

### 1.1.4.

First, during 2008 we issued a consultation paper on key issues that affect the development of our Corporate Strategy. That consultation was augmented by other substantial consultations during the course of this year, notably on our

future role in relation to **Sustainability** issues and on **Energy Retail Competition** issues. We appreciate the need to feed the thinking from those exercises through to actual strategy decisions, work plans and actions. We issued decision papers on each of these in November 2008, when we also consulted on our draft Strategy and FWP. Those decisions are now reflected in our strategic priorities and associated workplans.

### 1.1.5.

We are aware of the importance of our role to the future of Northern Ireland and the need to have a clear and deliverable set of objectives and associated budget for 2009-10 – the energy and water sectors are vital to the economy, environment and community. However, we recognize also the need to take a longer view of developments and set our direction of travel in terms of strategic priorities and likely work areas across the various parts of our organisation. Future Forward Work Programmes can then be constructed within the framework of the themes and priorities which we see as determining much of our work going forward and which are further explained in this Strategy.

#### 1.1.6.

Second, the importance of our Corporate Strategy (and associated FWP 2009 – 2010) has been magnified by its construction during a time of substantial change and complexity in our work environment. Coherent strategic planning has never been more important. To note just a few of the relevant factors: establishing robust regulatory regime for the reformed water and sewerage industry in Northern Ireland; high and volatile wholesale energy prices and the implications for hard-pressed consumers; the global financial crisis and potential future implications for the regulated sectors; achieving optimal benefits from the current drive towards all-island co-operation on key energy issues; the search for an environment more conducive to competition in energy retail markets; the “internationalisation” of regulation (e.g. in terms of European Union legislation, cross-border trading and international environmental commitments) and the increasing importance of social and environmental issues in both the water and energy arenas.

#### 1.1.7.

Third, our office has been going through significant change and restructuring in recent times. This has included establishing an executive team, and expanding our staff resources to be able to properly fulfil our duties and responsibilities. We have become a multi-utility Regulator: we are now economic and consumer service regulator for the water and sewerage industry in Northern Ireland. This was added to our longer standing duties as economic regulator of the electricity and natural gas sectors in Northern Ireland. The scope of our work brings with it many challenges, for example bedding down the water regulation processes with other key stakeholders including DRD (Department for Regional Development), NIEA (Northern Ireland Environment Agency), NIW (Northern Ireland Water). It also brings opportunities – for example to learn from best practice and incorporate these ideas across all our industry functions. We see this Corporate Strategy as a way of thinking through and consulting with our stakeholders on these challenges and opportunities in a transparent and constructive way.



### 1.1.8.

We recognise that thinking strategically requires us to work with our wide spectrum of stakeholders. In the continuing flow of events there is no perfect time to adopt a strategy, since new events continually change the picture and in the coming period we will remain flexible to changes in the policy framework within which we operate. Constitutionally, this policy comes from Ministers: water policy remains subject to Executive decisions on the results of the Hillyard Review; energy policy remains subject to the current DETI review of Northern Ireland's Strategic Energy Framework (SEF). (And as part of the SEF review, we expect vigorous debate on policy aspects of Douglas McIlldoon's report to us on electricity which we published in

December; although we have already begun implementing some of the recommendations that were regulatory in character.) We hope that publication of this Corporate Strategy will help stakeholders to understand where we are coming from and will help us respond to new policy developments in a structured and co-ordinated way. It might also assist policy-makers by showing the intricacy and inter-connectedness of issues faced by regulator and consumers. We greatly value our collaboration with government departments, regulated companies, NGOs and other stakeholders, as we believe wholeheartedly in delivering our priorities through collaboration and co-operation.

## 1.2 Who we are and What we do

### Who we are

#### 1.2.1.

What is now the Utility Regulator was first established in 1992, following privatisation of the Northern Ireland electricity industry. With the development of the natural gas industry in Northern Ireland, the regulatory role was extended in 1996 to cover gas. From April 2007 we also became the economic and consumer service regulator for Northern Ireland's water and sewerage sector.

#### 1.2.2.

The protection of utility consumers in NI is our key focus but our work is not simple and the problems can be complex and difficult to overcome.

#### 1.2.3.

Our day to day work on regulation and consumer protection incorporates legal, financial, economic and technical aspects; it also has a rich contextual environment which includes our statutory duties and governing legislation, relationships with industry and other regulators, local and national government, EU policy frameworks.





#### 1.2.4.

This complexity drives us to keep working hard to offer an independent centre of expertise, focused on protecting present and future consumers' interests and to ensure openness and transparency of our decision-making processes. Importantly also, in the context of the return of devolution, as a non-Ministerial Government department we will seek to provide a professional, informed and objective resource to the Assembly and Committees on energy and water regulation and charging issues and related issues such as sustainability. Robust analysis, transparency, good communication and co-operation with stakeholders are vital. We need to maintain close contact and positive collaboration with a wide variety of companies, government and other stakeholders operating in the energy and water sectors.

### What we do

#### 1.2.5.

The Utility Regulator is a non-Ministerial Government department. Our role is to ensure that the utility industries in Northern Ireland are regulated and developed within the strategic policy parameters set out by Ministers and in the relevant legislation. We exercise our broad range of functions in line with statutory duties

set out mainly in the Energy (Northern Ireland) Order 2003 and the Water and Sewerage Services (Northern Ireland) Order 2006.

At the heart of our duties and functions is the protection of the interests of present and future water, sewerage, gas and electricity consumers in Northern Ireland.

#### 1.2.6.

Briefly, we have a number of principal statutory objectives:

#### 1.2.7.

As regards the **water and sewerage** sector:

- a. to protect the interests of consumers in relation to the supply of water by water undertakers and the provision of sewerage services by sewerage undertakers, wherever appropriate by facilitating effective competition between persons engaged in, or in commercial activities connected with, the supply of water and the provision of sewerage services;
- b. to secure that the functions of a water undertaker and of a sewerage undertaker are properly carried out as respects every area of Northern Ireland; and

c. to secure that companies holding appointments as relevant undertakers are able (in particular by securing reasonable returns on their capital) to finance the proper carrying out of the functions of such undertakers.

#### 1.2.8.

As regards the **electricity** industry: to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity.

#### 1.2.9.

As regards the **gas** industry: to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.

#### 1.2.10.

Internally, the Utility Regulator currently has three regulatory directorates – electricity, gas and water – which are responsible for the economic and consumer service regulation of the three industries. These are supported by a Corporate Affairs directorate which is responsible for social

and environmental matters; appeals, complaints and disputes; finance and administration; strategy development and communications.

#### 1.2.11.

Our functions and duties are fairly wide-ranging but at heart they relate to the protection of consumer interests through effective regulation of the three regulated sectors. We achieve this by:

- Protecting the interests of Northern Ireland consumers of today and tomorrow by effective and transparent scrutiny and regulation of regulated companies.
- Issuing and maintaining licences for gas, electricity and water companies to operate in Northern Ireland.
- Protecting vulnerable consumers of these companies in Northern Ireland.
- Ensuring that these companies comply with the relevant legislation and licence obligations.
- Encouraging regulated companies to be more efficient and responsive to consumers.
- Controlling the prices these companies charge to consumers in Northern Ireland.
- Working to encourage competition in the gas and electricity markets.





- Setting and monitoring standards of service which these companies provide to consumers in Northern Ireland.
- Acting as an adjudicator on certain consumer complaints, disputes and appeals.
- Carrying out our duties with the environment and sustainability in mind.

#### 1.2.12.

There are many similarities in the work issues that we deal with in relation to each of the three regulated sectors: e.g. the protection of consumer interests from monopoly power; the need to control prices and scrutinise service levels for consumers. To some degree that allows us to adopt cross-sectoral thinking and approaches to problems – we see this as a valuable tool stemming from our multi-utility responsibilities.

#### 1.2.13.

However there are also many work issues that arise that are specific to an individual regulated sector. This can be the case simply because of the individuality of the sectors with which we interact; but to a significant degree it is also a symptom of the fact that the maturity of the regulatory interface with each of the three sectors in the NI context is different. In

electricity, our interaction with the industry is largely characterised by regulation of relatively more mature regulated markets, the development of all-island approaches to issues and problems, developing competition in various markets and effective price controls where still considered necessary – though the latter makes up a relatively smaller part of our workload. The electricity industry is relatively large, mature and diverse and has a significant (and growing) all-island aspect to it already.

#### 1.2.14.

In gas, the regulated markets and industry structure in NI are relatively immature compared to electricity and gas for example in the GB (Great Britain) marketplace. Much of our interaction with industry players remains in terms of price controlling the monopoly networks and establishing the necessary third-party access arrangements, as well as controlling final gas retail prices to consumers. We are in the early stages of developing all-island common gas arrangements (decisions in this context will be taken where they demonstrate robust benefits to consumers) and also the initial steps of developing fuller real competition in the gas retail markets.

### 1.2.15.

In water and sewerage, the relationship between the Utility Regulator and the newly established water and sewerage undertaker is a new and evolving one which needs to be bedded down and worked through – particularly the new price control regime. Much of the effort in the early years will very much be focused on establishing the data systems and analyses aimed at delivering the first price controls. Issues such as developing competition in the retail and wholesale parts of the water and sewerage sector are likely to be for the long term.

### 1.2.16.

In all our work with the regulated sectors, we are required to take account of the acknowledged five principles of best regulatory practice. These principles do now, and in the future will continue to, underpin how we work within the regulated sectors.

#### **Proportionality**

Our actions should be appropriate for the perceived problem or risk.

#### **Accountability**

We must be able to justify the decisions we make and expect to be open to public scrutiny.

#### **Consistency**

Our actions and decisions must be “joined up” and implemented fairly and consistently.

#### **Transparency**

Our work and decisions should be open, simple and user friendly. Policy objectives and decisions should be clearly defined and effectively communicated to all our stakeholders.

#### **Targeting**

Our Regulatory action will be focused on the problem. We should aim to minimise side-effects and ensure that no unintended consequences will result from our actions.

### 1.2.17.

In addition to these 5 principles, we acknowledge the importance of **timeliness** in our decision-making. We will seek to undertake our functions and make decisions in a timely manner and without undue delay.

### 1.2.18.

Further detailed information about the Utility Regulator and our work can be viewed on our website at [www.niaur.gov.uk](http://www.niaur.gov.uk)



---

## 1.3 Strategy challenges and Drivers

### 1.3.1.

The purpose of this section of the Strategy paper is to briefly set out the key context factors and challenges that drive our intended strategic approach in the coming period. During the course of the past year we have spent significant time developing our strategic thinking and consulting widely on key areas including energy competition and sustainability. In addition, during 2008, we specifically developed and consulted on key issues that we felt should contribute to the development of our Corporate Strategy, including challenges, opportunities, context issues, etc. Based on the previous work we note the following key drivers for our strategy:

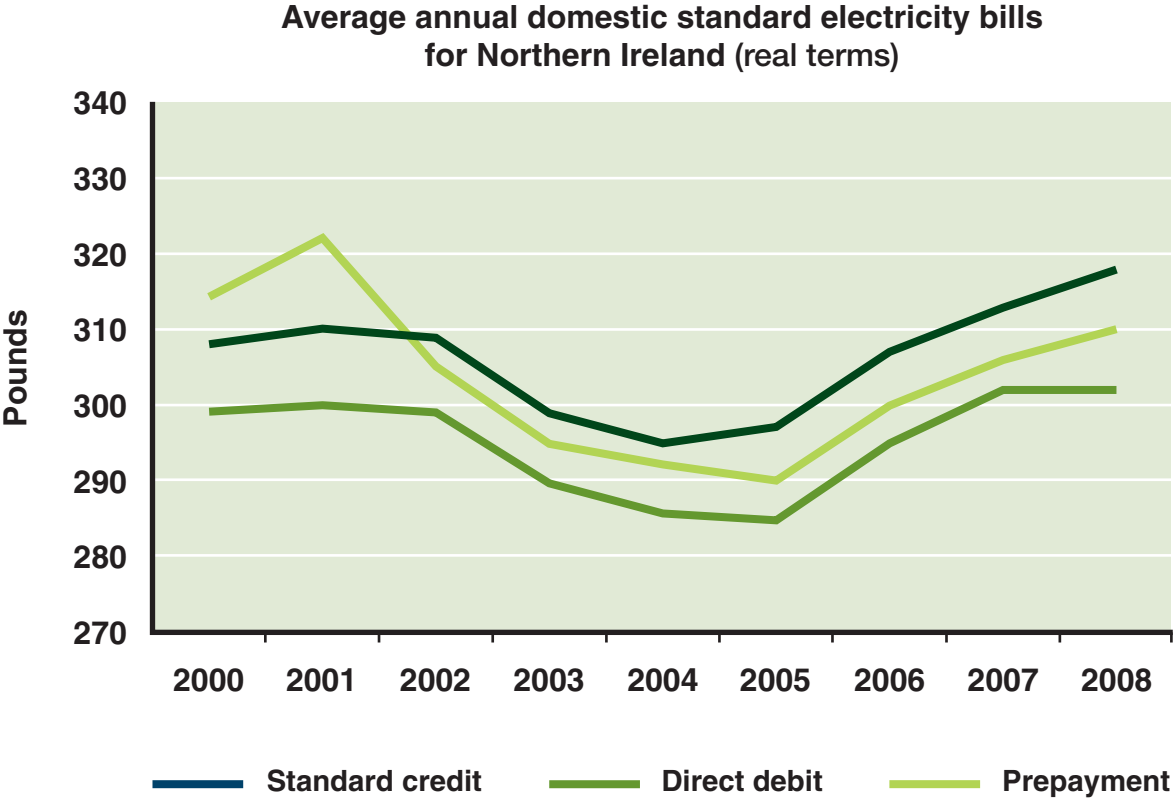
### **Rising prices to consumers and the need for concerted action**

### 1.3.2.

Across Northern Irish society, there is a growing awareness of the negative impacts that higher and volatile utility prices are having on already stretched household budgets and industrial competitiveness. There is a need to maintain as much downward pressure on business utility costs also for economic development reasons.

### 1.3.3.

Recent years have been characterised by high and volatile wholesale energy prices which have fed through into high bills for consumers (see chart overleaf for example in relation to UK electricity bills for households).



Note: Source – BERR Stats; based on an average assumption of household use.



#### 1.3.4.

In addition, despite recent downward trends in wholesale costs, there are several factors which would indicate that longer-term fuel price pressures are unlikely to remain substantially weakened – these include ongoing demand/supply tensions in the medium term, increasingly high targets for renewable generation, fuller pricing-in of the environmental costs of carbon to fossil fuels.

#### 1.3.5.

Our principal objective in electricity is to protect consumers' interests (where appropriate through facilitating competition) and in gas it is to promote the development of an efficient, economic and co-ordinated gas industry, with consumer protection being given as a general duty. In water, electricity and gas we are required to have regard to the interests of vulnerable consumer groups (including individuals with low incomes). We therefore have a clear basis for action to protect such groups, in balance with our duty to consumers in general; to date this has been evidenced by our track record of supporting **action against fuel poverty**. Linked to this issue, is the topic of tariff structures that address the needs of low income

consumers. We are currently developing a consultation paper in this area and intend to issue it early in 2009-10 – and we will respond constructively to others' initiatives. Any initiative will need to be tightly targeted, which will require clear decisions about eligibility. Political leadership will therefore be essential. It will also be important to us as a cross-utility regulator that any such policy initiatives in energy be designed bearing in mind decisions on water affordability tariffs and vice versa.

#### 1.3.6.

The implications of the above for our strategic priorities for the coming 5 years is that it reinforces the requirement on us **to continue to promote downward cost pressure on regulated companies** (particularly through the price control exercises) and to maintain efforts to **protect vulnerable consumers**.

### **The benefits of boosting competition in the retail and wholesale sectors**

#### 1.3.7.

Given cost concerns, alongside our primary duty on consumer protection, we believe that increasing competitive forces in the regulated

sectors, where it is cost effective to do so, can bring real benefits for consumers. In our strategy we wish to set out those areas of the wholesale and retail energy sectors where we feel there are future opportunities to **bring competitive pressures to bear to the benefit of consumers** (at this point we consider that competition in the water/sewerage sectors is for the longer term). Future work on reviewing and, where necessary, improving the new SEM arrangements, ensuring as broad a range as possible of wholesale opportunities are open to market forces and increasing the opportunities for real and effective competition in the energy retail markets are key context challenges for us.

## Environmental Sustainability

### 1.3.8.

Environmental and sustainability challenges are key strategy drivers going forward. It has been commonly accepted that our current model of development, based on the erosion of natural resources and ecosystems, is unsustainable. The need for sustainability is even more pressing in the context of activities related to the emission of greenhouse gases, mainly CO<sub>2</sub>.

### 1.3.9.

The Utility Regulator has as its main duty the protection of consumers and our approach to that role is wide, considering that protection should be given to all consumers, both present and future. From this perspective, pushing our green agenda becomes a priority. To this end, we have consulted on our “**sustainability**” strategy and many of the issues covered therein form part of our Corporate Strategy thinking in this area.

## Security of Supply issues

### 1.3.10.

Directly linked to sustainability is the requirement for us to consider the way forward in relation to the **security of supply** agenda. Over a short number of years from now we can expect a wave of new electricity generation build on the island. Given fossil fuel price volatility and environmental considerations, we will need to take cognizance of the requirement to expand our power generation opportunities to include **deeper use of renewable technology** and also brings in the issue of **enhanced gas storage** capabilities. Cognizance is also needed that the speed on change in relation to these energy



sector issues will be affected by planning requirements and delays should they emerge – this is something that we and other parties need to work on within the wider Government context. We will seek to inform this wider debate for example in relation to the costs and benefits of the planned changes and their potential impacts on the utility sector and consumers.

#### 1.3.11.

The energy security of supply issues are all the more complex given the long-term nature of the decisions and investments required, the fact that such investments are largely under the control of private companies and the increasing need to consider these issues on an all-island basis. We also note here the potential impact of **the recent global financial crisis** on our regulatory approach and on issues that may directly affect our regulated companies, such as the financing requirements of investment, the risk of supplier default, the “risk” assessments of investors and the price at which regulated companies can finance their regulated companies and associated investment programmes. These issues are important and complex and we need to devote some resource in the coming period to better understanding their potential impacts.

#### 1.3.12.

The security of supply issues need to be recognized within our strategy planning as they arise in a number of important contexts, for example:

- a. the future direction of fuel mix of our power generation where we already have a significant dependence on gas fired power and within the foreseeable future the potential need for new and additional generation capability for NI and how this requirement links to generation capacity and use for the island as a whole;
- b. the medium term implications of potential enhanced GB-Ireland electricity connection towards the end of the Strategy horizon;
- c. the need to define the capability, optimum grid investment requirements and best practical way forward for enhanced connection of renewable generation, notably wind power, onto the grid; and
- d. also in the context of investigating options for additional gas storage capabilities for NI and for the island as a whole.

### 1.3.13.

In **water**, security of supply, both in infrastructural and “quality” terms, are fundamentally important and drive a significant proportion of all required regulated expenditure. The main arena for the outworking of these issues in the water context will be the first price control of NIW – and the investment and asset investigation and requirements coming out of that.

## The need to “harmonise” our strategy

### 1.3.14.

We consider that a key contextual requirement for us is to ensure that our strategy and policy framework aligns closely with other related stakeholders.

### 1.3.15.

There are several heavyweight examples of why we consider this important. These include: the benefits of co-operation and harmonisation of approach on energy issues with the RoI to unlock scale advantages, increase attractiveness for investment, reduce operational costs, etc; the requirement to harmonise our evolving regulatory approach to water regulation

with best practice regulatory developments in GB and with thinking and decisions coming out of local policy; and the need to ensure our own policy priorities fit within, and are not thwarted by, actions and decisions taken at national or international/EU levels that do not take our own local situation fully into account.

### 1.3.16.

We also note the need to ensure that our strategy harmonises with other key stakeholders – notably in relation to the Strategic Energy Framework under review by DETI and the review of water and sewerage charging issues under review by the Assembly.

## The growing importance of EU-level factors to our work

### 1.3.17.

This is a reality that will affect our strategic approach in several ways discussed below. We recognise the need to try to understand the issues, and where necessary influence debate, early to ensure that the local implications of decisions made are realised and taken into account.





### 1.3.18.

Cross-border trading and regulation is one of the new developments in regulation across a number of sectors. It sets a key growing context for our work. For example, there is the strong EU element in how communications services are now regulated and postal competition is being driven largely by EU directives. Of even more relevance, energy prices in the UK have probably been affected over the last few years as much by developments in Continental Europe as by other factors. In relation to our water and sewerage sector, our context is influenced by the Water Framework Directive, Urban Waste Water Treatment Directive, Drinking Water Quality Directive and EU driven targets for improving water and wastewater quality and treatment.

### 1.3.19.

On another front, we know that EU legislation is going to be a main factor in setting the UK's targets for renewable generation. Also, it seems likely that forthcoming EU legislation will strongly reinforce the cross-border nature of energy regulation, requiring the single European market to become an objective of national regulators and giving the EU level some influence over the national level regulatory agenda.

### 1.3.20.

Moving to another policy area, liberalising energy markets has been a key goal for European regulation policy; however it has proven difficult to deliver first rate competition in NI and ROI energy markets – particularly at the domestic consumer level. This is not an unusual difficulty in the wider European energy market context and dissatisfaction with the progress towards energy market liberalisation across the EU has recently led the EU to issue the so-called “third package” proposals of further energy market and associated regulatory reform. As driven by EU obligations, pursuing higher levels of competition in energy markets and greater opportunities for consumers to choose their suppliers will be a significant issue and challenge going forward, and will only be achieved through co-operation and joined up thinking with other stakeholders.

## **Technological and information advances**

### **1.3.21.**

The technological background to our work and the industries we regulate moves quickly. In areas such as renewable technologies and smart metering we are seeing fast progress in development and an emerging need to better grasp the implications for policy. This pattern will continue, if not accelerate in the years to come, and may well be accelerated by the growing move on the island towards competitive energy markets and the competitive pressures for development and innovation that go with that. Some of the attendant issues to fast-paced change can be complex. For example, in relation to smart metering, issues such as the needs of demand side management, environmental concerns, desire for enhanced tariff options, enhanced consumer information, etc, all come together in one technological issue – hence the complexity, but also an opportunity which we are keen to avail of.

## **The need for us to run a fit-for-purpose office**

### **1.3.22.**

The Utility Regulator has been undergoing a significant restructuring over the last year. It is intended that the internal reforms will continue to bed in and result in an improvement of quality and accountability in financial processes, the revision of human resources policy and communications approach and the devising and operating of our processes to demonstrate value for money.



## 1.4 Our Strategic Priority Themes

### 1.4.1.

In light of the drivers and challenges discussed above, we have identified the key strategic themes which, taken together, frame the direction of our Corporate Strategy. We discuss these in this section. The current Forward Work Programme released alongside this strategy (for the 2009-10 year), and future FWP's will translate these strategic themes into firm one-year actions and commitments.

### 1.4.2.

We are aware that it is potentially the case that at times there may be **tension between our strategic priorities**. We note the need to guard against complacency on this. For example, it is possible that in the pursuit of further and effective competitive pressures, there may potentially be implications for costs and margins in the short term that offset the gains from competition, or there may be circumstances in which particular consumer groups (possibly those most vulnerable) fail to benefit from

competition. Another area of potential tension arises for example in relation to environmental sustainability concerns and resulting investment demands for our regulated utilities and their interface with our price control processes where we are seeking to minimise costs for consumers. We wish to note explicitly that it is our intention to seek to identify these tensions where they arise and, through consultation and work with our stakeholders, transparently and realistically tackle these tensions to identify optimum courses for action for our Workplans.

### 1.4.3.

At a high level, **the protection of consumers is at the heart of what we do** and why we exist. It is the broad umbrella across our duties and functions. However, to make this more concrete and deliverable in terms of a Corporate Strategy and Forward Work Programme, this high level purpose can be pared down into a number of key themes determining our overall work strategy – we identify and discuss **seven** overleaf.

- a. Protecting consumers by ensuring utility monopolies act efficiently.
- b. Environmental Sustainability and Security of Supply.
- c. Protecting vulnerable consumers.
- d. Boosting competition in wholesale and retail sectors.
- e. Harmonising energy markets and use of infrastructure.
- f. Evolving our Regulatory Framework.
- g. Our own Organisational development.

#### 1.4.4.

The themes have been identified during and as a result of the significant formal and informal consultations we have undertaken over the last year. We have noted that they also reflect broadly the themes that we have identified as common across several of our key stakeholders and fellow Regulators. **However while we are encouraged by this, we are not complacent;** we consider that we can add specific value by ensuring that our strategy and actions very much take account of our own local circumstances and specific sectoral issues where necessary.

#### 1.4.5.

Through this Strategy publication we are keen to be transparent about our prioritised themes and how they can interact in the future with the strategic direction of our stakeholders. We note in particular in this regard: the upcoming Strategic Energy Framework (SEF) development work being initiated by DETI and the ongoing review of “water” strategic issues being undertaken by DRD and the Executive in light of the Independent Review.

### **A. Protecting consumers by ensuring utility monopolies act efficiently**

#### 1.4.6.

Within our statutory remit and where competition itself does not protect consumers’ interests (particularly in terms of placing downward pressures on costs and enhancing innovation and quality of service), control of monopoly business areas through effective and timely price control exercises is a key goal. We will also work to ensure that our regulated monopolies act effectively in delivering their services and in ways which does not benefit an affiliate at the expense of others. In the coming strategy period we will devote significant



resources across the gas, electricity and water sectors to doing this and to scrutinizing and controlling the costs and prices of the monopoly regulated utilities and ensuring regulated entities meet their licence obligations at least cost and with due regard to environmental, safety, innovation and social requirements. Often it is the case that within price/cost control exercises, issues relating to wider policy areas, for example **sustainability** and **security of supply** (both discussed in their own right as a separate theme below) come into play. We note these here for completeness and to recognize the cross-cutting natures of our price control work - we will seek to ensure that decisions within our price control exercises align fully with our strategic goals in these other arenas.

#### 1.4.7.

In particular, bearing in mind the **new and evolving water regulatory regime and price control framework**, formulating the preparation and implementation of the first Price Control cycle from 2010 and the development and application of the subsequent 5 year Price Control cycle (including building in the Ministerial Guidance elements to these) must be key priorities in the coming period and

will help ensure the establishment of an effective regulatory regime for NI Water. Our regulatory work and approach needs to be set in the current context of government ownership, allowing the company to finance its activities and NIW's transformation to a fully regulated utility. Clearly, at the time of drafting this consultation, key considerations in relation to issues such as future charging and metering frameworks remain to be decided upon by the Executive in light of the Independent Review. We will of course engage constructively with the relevant players when these decisions become known so as to understand the implications for our role and work interfaces with DRD and NIW – it is very important that there is an agreed and joined-up view of the policy goals that the various stakeholders wish to achieve in relation to the operation of the new water company and what this implies for regulation and enforcement. However, we already know that new relationships (both informal and statutory-based) have to be forged with many key stakeholders including NIW, environmental regulators, DRD, CCNI (Consumer Council for Northern Ireland), Consumers, Assembly Committees, Ministers, etc. Also there are many different factors that come into play and important policy goals that

need to be worked on (often through the price control processes) and bedded in. These include such significant factors as: NIW organisational change, financing issues, long-term investment planning for an industry with long-lived assets, consumer charging, consumer standards, implications of environmental considerations around water and sewerage and the long-term nature of these, consumer metering, data systems and reporting, etc.

#### 1.4.8.

In the absence of competition, it is imperative that regulated utility consumers have confidence in the determination and control of regulated **standards of performance**. During the Strategy period we intend to reinforce our work in this area across each of the regulated utilities and learn lessons for best-practice in a cross-utility manner.

#### 1.4.9.

Also coming in broadly under this theme we note that issues around the framework of **utility financing** have arisen during the past period and will also need to be part of our work going forward. With consumer protection in mind, and

given that several of our key regulated assets now lie outside of public and shareholder-owned private companies, the role and extent of the “mutualised” highly geared financing model will need further consideration in light of ongoing review of the governance and operation of existing mutualised assets. There may also be wider issues arising in the context of differing forms of ownership and what this implies for example for financial ring-fencing arrangements and management incentives on efficient operation.

#### 1.4.10.

And finally under this theme, we also note the potential impact of **the recent global financial crisis** on our regulatory approach and on issues that may directly affect our regulated companies, such as the financing requirements of investment, the risk of supplier default, the “risk” assessments of investors and the price at which regulated companies can finance their regulated companies and associated investment programmes. These issues are important and complex and we need to devote some resource in the coming period to better understanding their potential impacts.



## What we want

To ensure that monopolies act efficiently

## How we will do it (see FWP for more details)

- Price controls: scrutinizing and controlling the costs and prices of the monopoly regulated utilities.
- Guarantee of standards: determination and control of regulated standards of performance.
- Assess the impact of the recent financial crisis on our regulatory approach.
- Consideration of the role and future of the “Mutualised” model.

## **B. Environmental Sustainability and Security of Supply**

### **1.4.11.**

As noted earlier, we have consulted heavily in this area during the past year. We recognise that we have many challenges and work commitments to meet in this area going forward. There is an increasing awareness that **sustainability and environmental challenges** are becoming one of the main threats to future generations and present consumers. The effects of climate change will result in significant challenges, many of which lie in national and international arenas as well as our own, including: pricing of fossil fuels to reflect carbon content, assessing and delivering the optimal mix of power generation and end-fuel use, increasingly aggressive targets for the share of renewable in electricity generation and the grid and technical implications of significantly enhanced renewable energy production, notably wind power. In terms of water and sewerage, the issue will impact prices through increasing imposition of higher standards of treatment for both water and sewerage whilst attempting to offset carbon emissions. Compliance with

European Directives is a significant focus with the **Water Framework Directive** being instrumental to future strategies and approaches.

### **1.4.12.**

The **expansion of the natural gas industry** within Northern Ireland is still a relatively new development and one which we will seek to renew effort on during the Strategy period. (We include this under the Sustainability heading, though it might have been labelled separately). The reasons to promote are mainly focused on environmental benefits, since gas is less environmentally damaging compared with coal and oil. There are also economic reasons to promote gas, such as increased choice for consumers and diversification of energy sources. Finally, there is of course our statutory duty to promote the development of natural gas as set up in the Energy Order (Northern Ireland) 2003. However there is a real danger that during the Strategy horizon the further development of the natural gas sector in NI may not happen as quickly as we may wish. Further extending the gas network beyond those areas already served will be costly, even if it can be proved of overall benefit to do so. Deepening connection rates in





those areas already linked to the gas network may also be problematic in a world of high and volatile wholesale prices – though this may be helped by the relatively low carbon emissions from gas and in a world where fuel prices will probably increasingly “price-in” carbon emissions. We believe there is a need to look afresh at this area and act in concert with DETI and other stakeholders to decide on the options and best way forward.

#### 1.4.13.

During the course of our work this year and also in relation to our various strategy consultations, **metering issues** arose several times and will require some resource over the coming Strategy horizon. (We include metering under the sustainability theme as metering issues can directly affect sustainability key areas and goals.) Within water, metering policy will be influenced by the Executive considerations of the Independent Review. In relation to energy, the future role and best use of **smart metering** technology and the implications for “smart networks” in the NI and all-island energy perspectives needs to be better researched and understood – existing pilot schemes and initial research needs to be

completed and next steps understood and we need to liaise closely with DETI on their work on smart metering assessment and related work on Energy Directives. Over and above smart metering per se, meter technology and use can have important implications for consumers and the sustainability regulatory framework e.g. in terms of transparency of use and data, **demand side management** and **time of day charging** regimes also more widely as a payment technology and as an aid to facilitating competition. We feel there may be merit in further work on our part in these areas to cohesively understand the implications, particularly if they are of a cross-utility nature. Our work on metering issues also needs to align with separate but related future work areas including particularly our other sustainability priorities.

#### 1.4.14.

An extra facet of sustainability relates to security of supply considerations. It is clearly important to ensure that the regulated utilities and markets operate in such a way as to ensure **long-term sustainability in the generation/production, network delivery and supply of the fundamental utility products and services.**

#### 1.4.15.

The industries we regulate – electricity, gas and water/sewerage are core to our economy and society and provide services fundamental to the well-being of consumers. Our planned delivery against this theme is evidenced across several aspects of our work. A few key examples: **price controls** – base asset requirements, network maintenance and reliability issues and the fitness for purpose of regulated entities’ plans are part of the overall assessment made of regulated performance and expenditure requirements; **expanding natural gas opportunities** more widely across NI consumers offers fuel choice for households and business consumers, while taking forward the future challenge of encouraging **gas storage** options and licensing into NI’s system will enhance security of supply options; delivering **enhanced levels of renewable generation** and

the future for network operation in a world of much **higher input from renewable technologies** (notably wind generation) will also add to security of supply (assuming proper consideration of back-up generation requirements) in a scenario of more volatile prices for traditional power generation fuels, reflecting increasing demand tension and possible supply concerns. On these latter points, we recognise that strategic planning in parallel with our RoI counterparts will be important.

#### 1.4.16.

In the water sector security of supply will be addressed by the development of comprehensive **water resources management plans** which will be submitted by the company and reviewed. Additionally we will review methodologies and set targets for achieving NI Water’s **economic level of leakage**.



## What we want

To regulate under an environmental sustainability perspective, which includes the challenge of maintain security of supply

## How we will do it (see FWP for more details)

- Delivering the action plan set out in our Sustainability Decision Paper (issued in November 2008).
- Meeting relevant EU legislation and targets.
- Promoting the development of natural gas and encouraging gas storage options.
- Analysing the future role and best use of smart metering technology and the implications for “smart networks” and demand side management and time of day charging regimes.
- Delivering enhanced levels of renewable generation.
- Developing of comprehensive water resources management plans and reviewing methodologies and setting targets for achieving NI Water’s economic level of leakage.

## C. Protecting vulnerable consumers

### 1.4.17.

One of the biggest concerns in recent times has been the impact of high fuel prices on both domestic and business consumers. The main reasons for **fuel poverty** are found in poor thermal efficiency of the dwelling, low household income and increasing fuel prices driven largely by wholesale fuel input prices determined outside NI. In addition, there is currently a degree of uncertainty as regards the timing and level of future water and sewerage charges to consumers in NI. It is important to work in a joined up way with wider Government to seek to

protect vulnerable consumers from the impact of rising charges. We intend to devote resource to this in the coming strategy period, for example through our participation in the **Fuel Poverty Taskforce**; through our **Social Action Plan** (which we are currently reviewing across each of the three regulated sectors and which we will seek to have in place and implement in 2009-10) and to better understand with wider government the issues and options around **social and affordability tariffs**. Clearly other priority areas already mentioned above (for example our control of monopoly charges and our work on boosting competition) will also contribute to this policy area.

#### What we want

To protect vulnerable consumers

#### How we will do it (see FWP for more details)

- Working with wider Government to protect consumers from the impact of rising charges.
- Participating in the Fuel Poverty Taskforce.
- Developing a Social Action Plan.
- Assessing issues and options around social and affordability tariffs.



## D. Boosting competition in wholesale and retail sectors

### 1.4.18.

At a time of great concern over high and volatile energy prices, consumers can benefit from having access to openly competitive supply markets and a real choice of suppliers and products. Where it is appropriate and cost-effective to do so, and to further protect consumer interests, we shall seek to **further boost competitive pressures** in the regulated sectors. We consider this to be more relevant to the gas and electricity sectors in the coming Strategy horizon than the water sector – this point was endorsed heavily during our consultation work this year by various respondents. We consulted on these issues in the **energy retail** context during the course of 2008 and the issues and actions flowing from that thinking are set out in the Retail Decision Paper published in November 2008 (see [www.niaur.gov.uk/uploads/publications](http://www.niaur.gov.uk/uploads/publications)).

### 1.4.19.

Briefly, the proposals entail actions across a number of areas including: clarifying our policy goals in terms of energy retail competition; engaging with Commission on Energy

Regulation (CER) on retail market harmonisation workstreams; changing current supply price control arrangements and the incumbent regulatory framework; switching system work; broadening market opportunities (e.g. expanding gas availability); dealing with any data transparency issues that might potentially slow competition, etc. We will be taking forward discussions with CER to better understand workstreams that may be taken forward jointly, and the necessary timelines and management arrangements for these. We have created a new dedicated team internally to drive forward this work programme in the coming period.

### 1.4.20.

There are also several key issues related to enhancing competitiveness and liberalisation at the wholesale end of the regulated sectors that will influence some of our work priorities in the coming strategy horizon. (Some of the relevant issues here are already covered elsewhere, e.g. price control and all-island energy priorities.) For example, with the RoI Authorities we need to review and ensure that the **SEM wholesale electricity arrangements** are functioning properly and seek to amend and improve on them if and where necessary. We also need to identify if and

how the SEM mechanisms might need to alter to allow for future energy developments over the Strategy horizon and even beyond, e.g. the increased focus on renewable and particularly wind, generation technology and the impacts on network planning and operation.

#### 1.4.21.

Other Wholesale-related issues (that may also benefit the development of retail competition) include the need to **consider how best to promote a more developed and liquid hedging and contract market within SEM**. In gas, as

mentioned above, the development of **gas storage** is a key issue that will arise during the strategy horizon – we need to prepare for this in terms of understanding and putting into place the necessary legislation and licensing implications and other regulatory control functions required.

#### 1.4.22.

A final wholesale related issue to be mentioned here is the need for review and assessment of the optimal way forward in relation to **the future of the long-term Power Purchasing contracts**.

### What we want

To enhance competition in energy regulated sectors

### How we will do it (see FWP for more details)

- Progressing the action plan set up in our Retail Decision Paper (issued in November 2008).
- Ensuring that the SEM wholesale electricity arrangements are functioning properly.
- Considering how best to promote a more developed and liquid hedging and contract market within SEM.
- Reviewing and options to consider the future of the long-term Power Purchasing contracts.



## E. Harmonising energy markets and use of infrastructure

### 1.4.23.

In recent years the Utility Regulator has been working with the relevant Government departments, CER and the industry stakeholders to progress work on energy issues that can lead to gains for consumers when pursued jointly. The work programme in which we have been participating emanates out of the 2004 All-island Programme (AIP) Framework document agreed by the two Governments and has included the successful implementation of the **Single Electricity Market (SEM)** in November 2007. Also, in the gas sector the current work programme is aimed at developing **Common Arrangements for Gas (CAG)** whereby all stakeholders can buy, sell, ship, operate, develop and plan the natural gas market north and south on an all-island basis. We have also mentioned above the plans already in place that in the coming period, options for **market synchronisation and retail harmonisation in both electricity and gas markets North and South** will be considered and where beneficial progressed.

### 1.4.24.

In terms of the development of this Corporate Strategy consultation, it is clear that **the programme of harmonising energy markets and use of infrastructure on the island** will continue to influence many of our decisions and our planned priorities over the coming work planning horizon. In particular, the future direction of travel of the all-island energy work programme will be heavily influenced by two factors being developed in parallel to our own consultation. The first is the DETI Strategic Energy Framework (SEF). The second is the development of the SEM Committee's workplan.

### 1.4.25.

These will allow more detailed consideration and clarity on the work programmes relating to the future development of SEM and other electricity arrangements, the development of common regulatory and industry arrangements for gas and allow updated thinking on the development of renewable and in particular wind opportunities on the island and the best way forward for handling the grid planning and operation implications of that.

**1.4.26.**

Clearly our own Corporate Strategy needs to align with and influence, and be influenced by, the development of these two factors as they

come to fruition. We are currently working directly with the two Governments and our fellow energy regulator in the RoI (Republic of Ireland) to ensure this is the case.

**What we want**

To further improve the harmonisation into the energy markets and optimise the use of the infrastructure

**How we will do it** (see FWP for more details)

- Continue working with the relevant Government departments, CER and the industry stakeholders.
- Developing market synchronisation and retail harmonisation in both electricity and gas markets North and South.
- Delivering on the all-island energy work programme, taking into account the DETI Strategic Energy Framework (SEF) and the SEM Committee's workplan.
- Developing renewable generation opportunities through optimised grid planning and operation.





## F. Evolving our Regulatory Framework

### 1.4.27.

We consider that there are a number of regulatory issues requiring some priority which we have placed under the theme of evolving our regulatory framework. Two key identified issues fall here as influencing future Strategy and work prioritisation: EU policy direction and Directives and Competition Law and powers.

### 1.4.28.

Across the utility sectors, **EU law and policy** provides a crucial framework around many of our regulatory approaches and relevant government policy: e.g. on market liberalisation and utility “unbundling”. We will need to ensure that we continue to be aware of the policy and regulatory requirements here and put into place actions to deliver on the required policies and goals. **Directives relevant to the water regulatory framework** include for example all encompassing Water Framework Directive – we need to work with stakeholders to understand the resource and investment consequences of these directives and the appropriate responses. During the Strategy work horizon, the full implications of the so-called **EU Third Package of energy market liberalisation reforms** will

become known and will have to be transposed into our legislative and regulatory regimes. This will require careful consideration by our gas and electricity teams alongside industry stakeholders, DRD and DETI.

### 1.4.29.

The existing bank of law and regulatory powers related to the **Competition Act, Enterprise Act and the Utility Regulator’s concurrent powers** under the legislative basket is an area that remains relatively under-developed in terms of our existing regulatory approaches. To some extent this has been due up until now to the relative immaturity of our market structures compared for example to GB. It has also been due to the concentration of regulatory approaches on traditional regulatory techniques including licence enforcement and monitoring. We consider that in the coming strategic planning period we should seek to consider afresh our range of powers and functions and understand if they have applicability in relation to our regulatory framework which, to date, we may not have utilised. This work area will require considerable thinking, development and consultation before we move to firm actions and policy proposals, but we wish to highlight it here as a future theme to be developed.

### What we want

To influence future strategy and work prioritisation in light of EU policy and developing competition

### How we will do it (see FWP for more details)

- Ensuring we take account of the policy and regulatory requirements.
- Putting into place actions to deliver on the required policies and goals.
- Working with stakeholders to understand the consequences of these Directives and developing the appropriate responses.
- Considering afresh our range of powers and functions on competition and understanding if they have applicability in our framework.



## G. Our own Organisational development

### 1.4.30.

The Utility Regulator has been undergoing a significant restructuring over the last year.

### 1.4.31.

We have put considerable resource into developing and improving our governance and business processes to further improve

performance and have taken forward significant work on equality, HR, IT and Communication aspects. It is intended that the **internal reforms** will continue into the Strategy period and will result in a further improvement of quality and accountability in financial processes, ongoing development of our strategic approach to policy and actions, the revision of our **human resources policy** and communications approach and continuing **value for money**.

### What we want

To improve our performance

### How we will do it (see FWP for more details)

- Continuing the improvement of our governance and business processes.
- Ongoing development of our strategic approach to policy and actions.
- Revision of human resources and communication policies.
- Demonstrating value for money.

[www.niaur.gov.uk](http://www.niaur.gov.uk)