



Protecting consumers, today and tomorrow.

Our draft Corporate
Strategy
2019-2024



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1. Introduction

We are reviewing our Corporate Strategy 2014-2019. Our review will help us develop and finalise a new corporate strategy for 2019-2024. This document sets out a draft corporate strategy for consultation

About Us

We are the independent non-ministerial government department responsible for regulating Northern Ireland's (NI's) electricity, gas, water and sewerage industries and are governed by a publicly appointed board.

Our work is based on our statutory duties which include:

Energy – electricity and gas

protecting the interests of electricity consumers with regard to price and quality of service, where appropriate by promoting effective competition; and promoting the development and maintenance of an efficient, economic and coordinated gas industry

Water

protecting the interests of water and sewerage consumers by promoting an efficient industry delivering high quality services

About this document

This document sets out our draft Corporate Strategy 2019-2024 and we welcome views.

Responses to our draft strategy should be sent to us before the close of our consultation on **31 January 2019**.

You can send responses to:

Briege Tyrie
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14 Queens Street
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2. Our draft corporate strategy on a page

Strategic objectives

Overarching purpose: Protecting and empowering all consumers by:

1. Promoting markets that deliver effective competition, informed choice and fair outcomes

2. Enabling 21st century networks

3. Enabling security of supply and a low carbon future

Key outcomes

- Increased customer satisfaction
- Increased protection for vulnerable consumers
- New and enhanced energy market monitoring
- The SEM delivers increased efficiencies and optimises market participation

- Future facing network utilities that plan for the future and manage asset systems
- Improvement in network utilities costs
- Improvement in overall network utilities performance
- Network utilities that innovate
- Greater customer focus for all network utilities

- SEM facilitates a reliable supply
- Secure access to GB gas supplies
- Delivery of NI Water's contribution to the Long-Term Water Strategy
- Efficient investment to support government decarbonisation targets
- Electricity network accommodates more renewables generation
- Promotion of energy efficiency and renewables technologies

Key success measures

1. % of customers who trust and are satisfied with their energy supplier
2. % of customers who are satisfied with consumer protection arrangements in NI
3. % of customers who are satisfied with the switching process
4. Enhanced market analysis and monitoring in place facilitating consumer protection, assurance of compliance and enabling enforcement as necessary
5. Increased efficient deployment of interconnector flows evidenced by harmonisation across the interconnectors between GB and the SEM
6. Efficient wholesale energy prices that benchmark favourably with comparator markets

1. All network utilities deliver asset management strategies and long-term network development plans
2. Innovation plans are delivered as part of price control reviews
3. A review of electricity network tariffs is completed
4. Over 300,000 gas customers connected to the natural gas network
5. Best practice guaranteed standards of service are introduced for energy companies
6. Cost and performance reports are published for all network utilities

1. Level of efficient investment in renewable generation to support Government targets
2. Increased level of renewable generation, meeting electricity demand
3. Facilitate the delivery of the second north-south interconnector
4. A new transportation agreement to ensure access to GB gas supply after 2021
5. Along with the Department for the Economy, Clean Energy package requirements are met by 2024
6. Sufficient generation is secured to meet demand through the SEM Capacity Remuneration Mechanism

KEY ENABLERS

Our regulatory approach

Our external communications

Supporting the development of our people



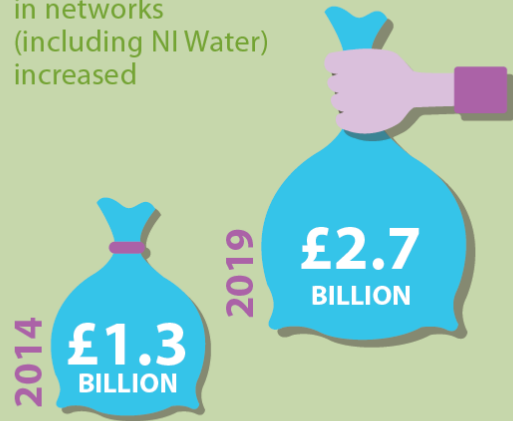
3. Overview of Corporate Strategy 2014-2019

The first step in developing our new strategy is to look back at progress against our current strategy. We provide an overview of key achievements during our current strategy (to date).

REGULATED domestic electricity and gas bills in 2018 are amongst the **LOWEST IN EUROPE**



EFFICIENT INVESTMENT in networks (including NI Water) increased



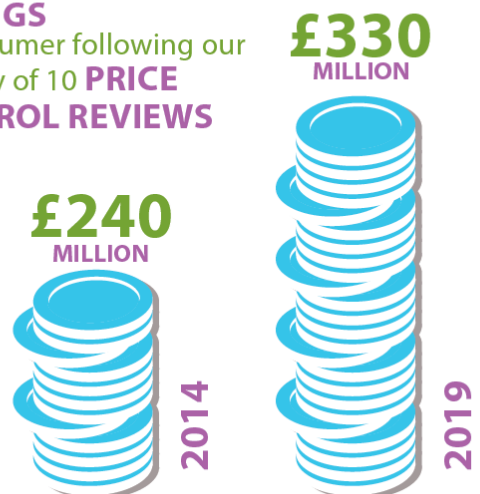
Increase in number of **GAS CONNECTIONS**



The **NEW WHOLESALE ELECTRICITY MARKET**, the ISEM, went live on 1st October 2018



SAVINGS to consumer following our scrutiny of 10 **PRICE CONTROL REVIEWS**





The volume of consumer supplier **SWITCHING HAS INCREASED DRAMATICALLY** since 2010

554,000
ELECTRICITY
SWITCHES



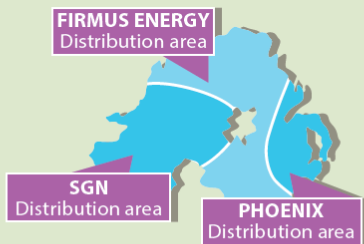
INCREASE in proportion of electricity **GENERATED FROM RENEWABLES**

15%
2014

35%
2018



GAS NETWORK EXTENSIONS were commenced to the west of the Bann and East Down with **CONSUMERS NOW CONNECTED**



Advocated for the second **NORTH-SOUTH ELECTRICITY INTERCONNECTOR** which received planning permission in **JANUARY 2018**



New codes of practice to **PROTECT CONSUMERS** were introduced in –



Development and implementation of **CONSUMER PROTECTION STRATEGY**, focused on **VULNERABLE CONSUMERS**

We also provide an overview of what we have achieved against our key performance indicators to date at Annex 1.

While progress has been made across all targets, and most are expected to be fully achieved by next year, we will include new commitments on network regulation in our new corporate strategy.



4. Background to developing our new corporate strategy

The starting point for our new strategy was to consider the background and key issues, developments and trends. A series of workshops with our key stakeholders helped shape our thinking. Eight key areas are presented which together represent key strategic drivers influencing our new strategy.

1. The Energy Transition

An energy transition is underway with key drivers being decarbonisation and technological change.

Decarbonisation is one of four 'Ds' that together represent the energy transition. The *decentralisation* of electricity networks will create less of a distinction between transmission and distribution and greater role for distributed generation. Distribution Network Operators (DNOs) in this system will move towards a Distribution System Operator (DSO). *Democratisation* will increase the number of electricity suppliers and associated services and may prompt, for instance, the rise of community-based enterprises self-supplying energy using 'blockchain' technology.

Technological innovation and *digitisation* will drive increased consumer activity and disruptive energy technologies will drive significant changes for networks companies. Electric vehicles and the decarbonisation of domestic heat could both place additional demands on the electricity network. The injection of renewable sources of gas will also need to be considered for gas networks.

For regulators there will be governance challenges with the new range of potential players (as well as building trust with consumers). Adapting to change (such as through facilitating innovation) will also be a key issue. Supporting consumer empowerment remains a priority. Technological and social change is driving consumer choices about utility services.

Increasing numbers of consumers will also produce (or generate in relation to energy) – the 'Prosumer'.

2. Future energy and water policy and strategies

Two major uncertainties potentially impact on our ability to deliver key outcomes during our new corporate strategy period. Firstly the absence of a Northern Ireland Executive will impact on the energy and water framework within which we operate. Secondly, the ongoing uncertainty around the terms of the UK's departure from the EU may have negative impacts. The UK's departure from the EU brings uncertainty in respect of electricity and gas markets. In particular there is uncertainty over the continued membership of the EU Internal Energy market by the UK.

In energy the Department for the Economy's Strategic Energy Framework comes to an end in 2020. A new policy framework will need to provide direction on areas such as renewables (particularly in the context of the EU's Clean Energy Package), electricity and gas network infrastructure planning and the facilitation of new technologies (e.g. energy storage).

In water, the Department for Infrastructure has set out a Long-Term Strategy for water which covers areas such as leakage and water quality.



3. Utility services and consumers

Consumer expectations of the service provided by utility companies will continue to change. Consumers today see utilities as a service like any other. Meeting consumer expectations require more customised, personalised services.

The key premise of the 'utility-as-a-service approach' is that we can design utility services by choosing a utility business that best delivers our needs and sources the best supplier and equipment.

Of course it is not just that utility services will have to innovate or be creative, they will also have to ensure that they make sure that these essential services are well-maintained and fit for the future.

In all of this, ongoing technological innovation is key, allowing consumers to engage with, and make choices on, service use. A good example is the heating system applications that are becoming more popular, enabling the ability to remotely activate or control temperature.

This will require greater engagement by utility companies with customers to ensure that their service meets expectations. We have been facilitating greater engagement between regulated companies and their customers (such as on the NI Water PC15 price control)

4. Competitive markets

While part of the debate around the operation of utility markets is framed by the outcome for consumers, there is a broader question of promoting effective competition.

The new SEM wholesale energy market (the ISEM), went live on 1 October 2018 and provides a more competitive market that should place downward pressure on prices. We reviewed the effectiveness of our retail energy market in 2017 implemented changes to promote competition and the effective operation of the market.

The new SEM market has already introduced competition for capacity and we will see the first longer-term capacity auction take place next year alongside the annual auctions. These auctions will provide assurance around security of supply and the competitive process should reduce costs. We will also be working to introduce secondary trading into the capacity market as well as expand the opportunities for intermediaries to operate in the market as a whole. This work will further build on competition in the market and create opportunity for investment and bring benefits to consumers.



5. Fairness and consumer outcomes

There is much discussion on the effectiveness of competition and consumer outcomes in regulated markets.

There is a view that markets have not delivered consumer-focused outcomes, especially for vulnerable consumers. Northern Ireland has the highest level of fuel poverty in the UK.

We have been focusing, through our Consumer Protection Strategy, on practical initiatives to supporting vulnerable customers such as when they go off-supply. Protecting the most vulnerable, by ensuring that they can access the best price deals and quality of service outcomes, is key.

There is also some evidence of consumer disengagement from energy retail markets. A high proportion of these disengaged consumers are likely to be vulnerable consumers who do not, or cannot, avail of opportunities to seek lower tariffs or more customised services.

The debate about fairness and consumer outcomes is reflected in the Department of Business, Energy and Industrial Strategy's 'Modernising Consumer markets' White paper, published in April 2018. Separately, Citizens' Advice Scotland have set out seven principles for how regulation might best reflect the consumer perspective.

Preventing abuse of market power in wholesale and retail energy markets is a key success measure for market monitoring regimes.

6. Supporting renewables

The Paris Climate Accord 2015, the EU's Clean Energy Package and the UK government's Clean Growth Strategy all set a strategic direction for energy and renewables.

Key focus areas for the Clean Energy Package include a drive to support energy efficiency initiatives and utilising innovative technologies to support the growth of renewables.

A key question going forward relates to setting targets for renewables in Northern Ireland beyond 2020. There is also the question of how additional renewable generation can be accommodated on the system which has seen significant progress through the SEM DS3 initiative. Finally, there is the challenge of funding renewables in the least cost way while providing opportunities to support new technologies



7. Security of supply

For all utility areas the need for a secure and reliable supply remains.

In electricity the capacity arrangements in the SEM provide a basis for managing long-term security of supply risks. The construction of a second north-south electricity interconnector remains a key issue. In gas, finalising a transportation agreement to facilitate the reliable supply is essential. In water, there also remains the challenge of ensuring a reliable supply.

The Department for Infrastructure's Long-Term Water Strategy is focused on security of supply.

8. Regulatory approach

Given the change that is coming, particularly in energy, continued uncertainties and increasing expectations from stakeholders, it is clear that there are future challenges for regulators.

The traditional model of economic regulation in the UK emphasises predictability. There is every prospect that societal change, technological developments and a more empowered consumer will, however, prompt regulators to adjust their approach. For regulators, the challenge is about staying ahead of consumer expectations and more generally anticipating the changes that are required.

In practice this may mean that regulators are less prescriptive, more pragmatic, focussed more on principles and outcomes, adopt new approaches to accommodate innovation and a more diverse stakeholder environment. This approach positions regulators more as enablers (e.g. to facilitate major infrastructural projects) with perhaps a greater emphasis on making connections between stakeholders.

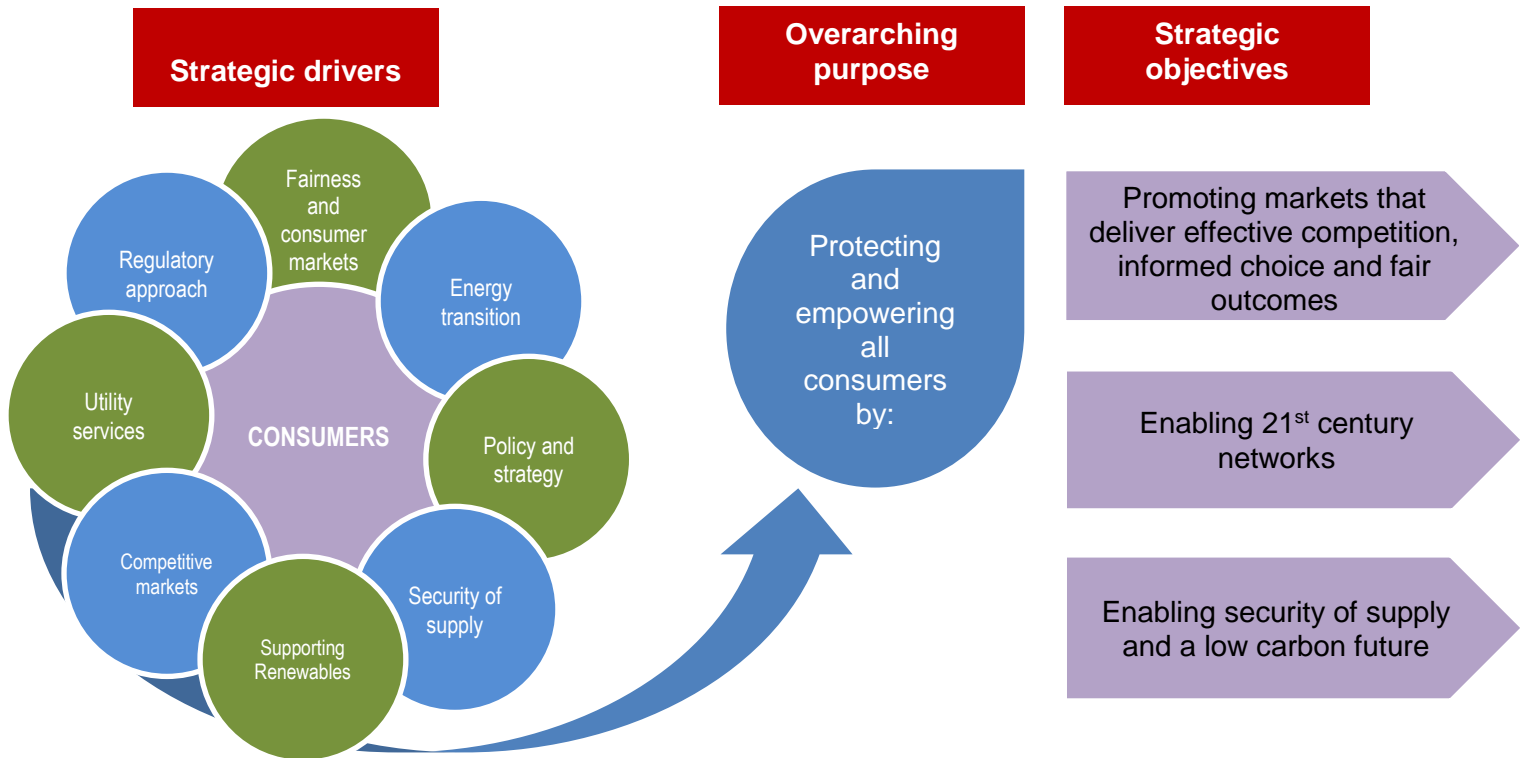


5. Setting out our draft corporate strategy 2019-2024

Having considered progress against our corporate strategy, assessed the strategic background and listened to the views of our stakeholders we believe that we need to set a new strategic direction.

There are areas of our current strategy where we think there is a further opportunity to make a difference during a new strategy period (such as around enhancing networks for the future). It is clear that we also need to embrace change (such as around the energy transition). As a regulator we recognise that some of this change requires us to assess how we might enable positive change for all energy and water consumers.

We set out the basis of our draft strategy below with strategic drivers influencing an overarching purpose and three strategic objectives. Each of the three strategic objectives are then described in more detail later in this section.



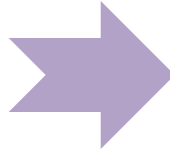
Starting with the consumer is paramount and consumers' needs will be at the centre of our strategy. By placing the consumer at the centre this can help us focus on outcomes for consumers from utility markets. Consumers should also expect that network utilities will enhance their customer focus while preparing for future change and challenges. Finally, consumers expect that their supply of energy or water will be secure and that there will be a clear roadmap which enables a low carbon future.



Protecting and empowering all consumers by:
Strategic Objective 1: Promoting markets that deliver effective competition, informed choice and fair outcomes

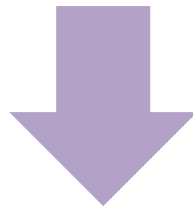
We will do this by

- Providing regulation that balances competition with consumer protection
- Ensuring energy market design delivers maximum value for consumers
- Better informing consumers to help them participate in utility markets
- Making sure markets work for consumers through robust market monitoring and prompt action to tackle non-compliance
- Delivering a Consumer Protection Programme (CPP) that protects vulnerable consumers
- Taking steps to protect the consumer interest following the UK's departure from the EU.



Key outcomes

- Increased customer satisfaction with their utility provider and consumer protection measures
- Increased protection for vulnerable consumers
- New and enhanced energy market monitoring and reporting arrangements
- SEM delivers increased efficiencies through market interconnection
- SEM optimises market participation of all available services and technologies



Key success measures

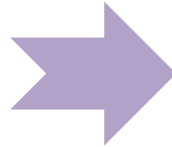
1. % of customers who trust and are satisfied with their energy supplier
2. % of customers who are satisfied with consumer protection arrangements in NI
3. % of customers who are satisfied with the switching process
4. Enhanced market analysis and monitoring in place facilitating consumer protection, assurance of compliance and enabling enforcement as necessary.
5. Increased efficient deployment of interconnector flows evidenced by harmonisation across the interconnectors between GB and the SEM
6. Efficient wholesale energy prices that benchmark favourably with comparator markets



Protecting and empowering all consumers by:
Strategic Objective 2: Enabling 21st century networks

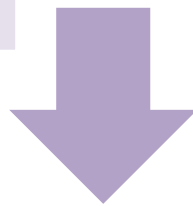
We will do this by

- Carrying out price control reviews to make sure that network costs are efficient
- Benchmarking utility company performance with the best in the UK and Ireland
- Promoting customer focused service standards
- Ensuring network companies robustly manage assets and ensure resilience
- Making sure our regulatory framework facilitates innovation and development by network utility companies



Key outcomes

- Future facing network utilities that plan for the future and manage asset systems to deliver optimal service and the appropriate level of resilience
- Improvement in network utilities costs versus comparators
- Improvement in overall network utilities performance versus comparators
- Network utilities that innovate to benefit consumers
- Greater customer focus for all network utilities



Key success measures

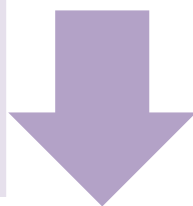
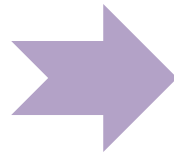
1. All network utilities deliver asset management strategies and long-term network development plans
2. Innovation plans are delivered as part of price control reviews
3. A review of electricity network tariffs is completed
4. Over 300,000 gas customers connected to the natural gas network
5. Best practice guaranteed standards of service are introduced for energy companies
6. Cost and performance reports are published for all network utilities



Protecting and empowering all consumers by:
Strategic Objective 3: Enabling security of supply and a low carbon future

We will do this by

- Working with Government and industry to make sure that consumers enjoy a secure energy and water supply
- Using our price control reviews to facilitate efficient investment to support government decarbonisation targets
- Working with others to implement EU Clean Energy package requirements



Key outcomes

- 1 The SEM facilitates a reliable power supply to homes and businesses
- 2 Secure continued access to GB gas supplies
- 3 Our PC21 price control review ensures delivery of NI Water's contribution to the Long-Term Water Strategy
- 4 Efficient investment supporting government decarbonisation targets
- 5 The electricity network is able to efficiently accommodate more renewable generation
- 6 The promotion of energy efficiency and renewable technologies arising from the Clean Energy package

Key success measures

1. Level of efficient investment in renewable generation to support Government targets
2. Increased level of renewable generation, meeting electricity demand
3. Facilitate the delivery of the second north-south interconnector
4. A new transportation agreement to ensure access to GB gas supply after 2021
5. Along with the Department for the Economy, Clean Energy package requirements are met by 2024
6. Sufficient generation is secured to meet demand through the SEM Capacity Remuneration Mechanism

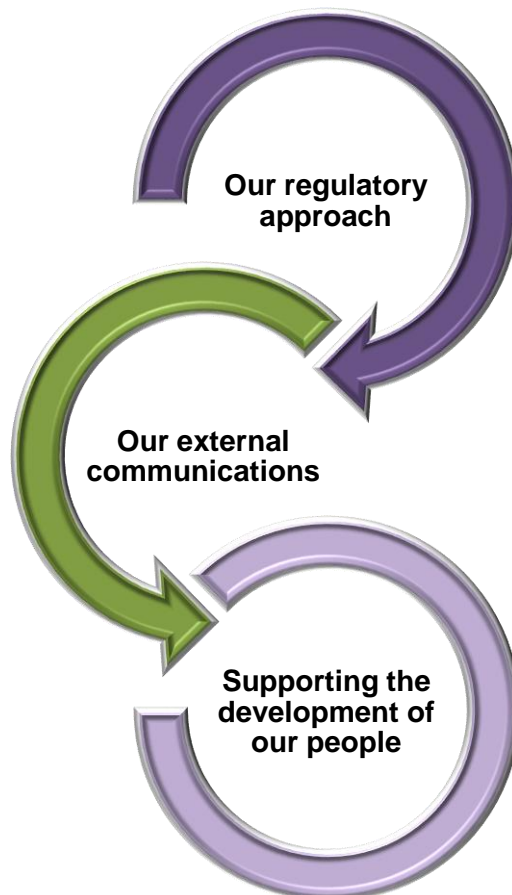


Delivering our corporate strategy

In delivering a new strategy we recognise that there are challenges for us as an organisation. Our stakeholders have emphasised the significance of our role and our regulation in delivering some of the transformative energy and water agenda items in the medium- to long-term. We recognise that we are on a journey towards best practice regulation and that **our regulatory approach** is therefore key. This may mean that we become more aware of, and responsive to, changing expectations and position ourselves much more as an enabler in delivering a transformative agenda.

In driving this new approach we also underline the importance of **our external communications**. A new communications strategy will see us develop our digital channels to share information more widely and in a more accessible format.

Delivering our strategy: key enablers

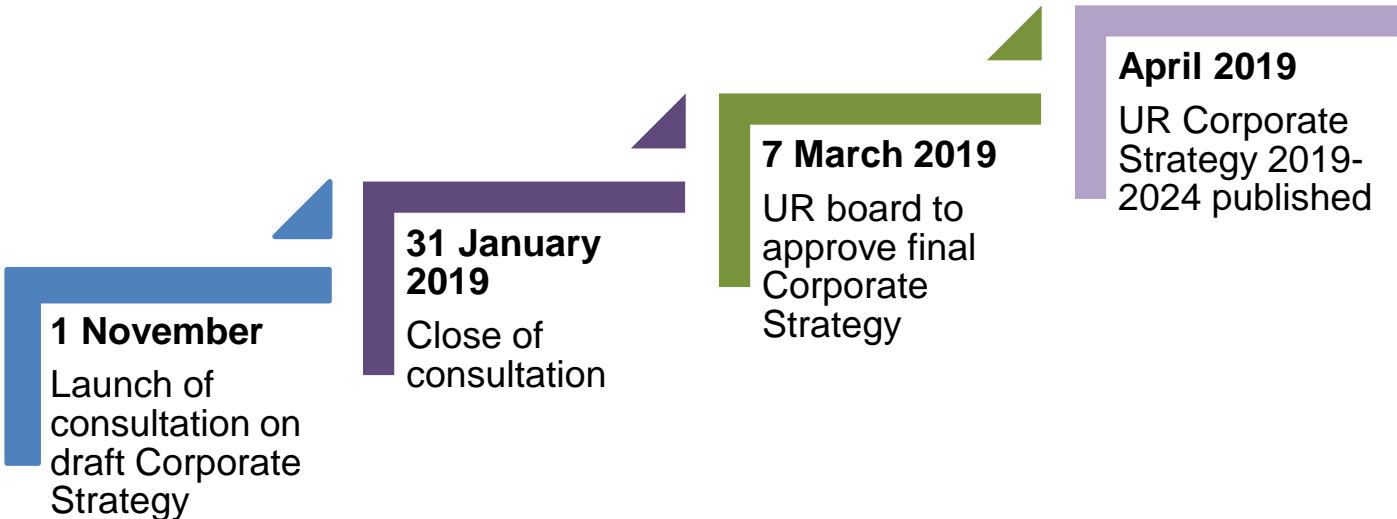


Finally, by continuing to **support the development of our people**, this can facilitate the delivery of our strategy. We received Investors in People accreditation during 2018 and will be advancing further actions to help us support the development of our staff. This action plan will focus on helping us support a culture of continuous improvement, improve how we manage performance, taking steps to allow us to embrace change and improving how we recognise and reward our staff.



6. Next steps

The consultation on our draft strategy is part of a process that will lead to the publication of a new strategy in April 2019.



Responding to the consultation on our draft strategy

We welcome views on our draft strategy, particularly regarding:

- whether we have taken account of key strategic issues and context in developing our draft strategy;
- our proposed strategic objectives, key outcomes and success measures; and,
- any other significant relevant issues or suggestions that we should be aware of in finalising our draft corporate strategy.

This document sets out our draft Corporate Strategy 2019-2024 and we welcome views.

Responses on our draft strategy should be sent to us before the close of our consultation on **31 January 2019**.

You can send responses to:

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Annex 1: Report on progress against Corporate Strategy 2014-19 KPIs (as at 31 October 2018)

Objective 1: Promoting effective and efficient monopolies

What we said we would do (our KPIs)	What we achieved
1. Excellence by network utilities in asset management	✓ All network companies now provide reports on asset management and we have started to benchmark asset management excellence through our price control reviews
2. Network utility costs and performance measure favourably against comparator companies	✓ We have introduced improvements in costs reporting and there is evidence that some network utilities measure favourably against comparators
3. Our regulatory tools help regulated utilities drive further effective innovation	✓ Evidence that some network utilities are starting to focus on innovation
4. Regulated companies to deliver price control outputs on time and within budget	✓ Progress has been made on setting clear price control outputs across all network utilities with associated costs and performance reporting to be introduced
5. Deliver over 250,000 network gas connections	✓ 244,000 achieved up to 2018 with target likely to be exceeded in 2019

Objective 2: Promoting competitive and efficient markets

What we said we would do	What we achieved
1. The ISEM is delivered on time	✓ ISEM went live on 1 October 2018
2. The Retail Energy Market Monitoring (REMM) system is in place	✓ The REMM is in place
3. The effectiveness of competition in our energy markets has been assessed	✓ Review of effectiveness of competition complete with projects to implement being progressed during 2018-19



Objective 3: Protecting the long-term interests of business and domestic consumers

What we said we would do	What we achieved
1. More energy will be generated from renewable sources between 2014 and 2019	✓ Proportion of energy generated from renewable sources reached 35% in 2018 with government target likely to be exceeded in 2020
2. The immediate risk to electricity security of supply has been addressed by 2016, and longer-term concerns are dealt with by working with DETI and SONI.	✓ Immediate risk to security of supply addressed and longer-term concerns being dealt with
3. We have delivered the Consumer Protection Strategy and have put in place revised energy supplier codes of practice.	✓ Consumer Protection Strategy produced and new supplier energy codes of practice in place. Review of Strategy implementation led to a revision to project priorities
4. Customer research shows a high level of satisfaction with customer-protection measures and how consumers are able to make informed decisions.	✓ Significant progress on activities to help consumers make informed decisions. Project during 2018-19 to measure level of customer satisfaction.

Key to status markings

- ✓ Target fully achieved
- ✓ Target on track to be fully achieved by 2019
- ✓ Target progressed but will not fully achieve target by 2019