

The Northern Ireland Energy Agenda

Regulator's Briefing
24 April 2008

Agenda

- Prices today
- Prices in the future
- The price of security of supply
- The price of environmental measures
- Do you spot a theme?
- Who pays the price? – Fuel poverty

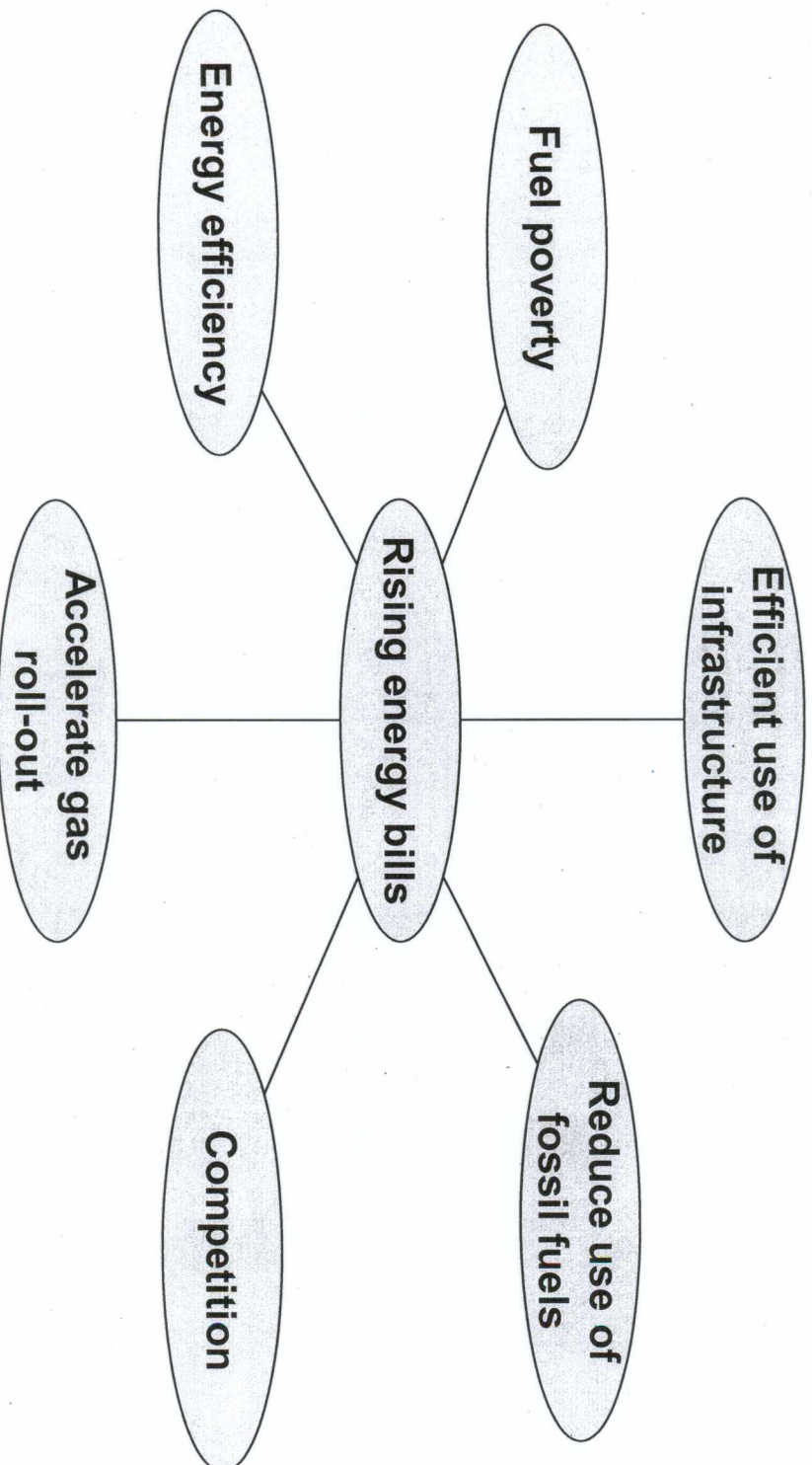
Why are bills rising?

- Sharply higher wholesale gas, oil, coal, electricity and carbon prices
 - Supply factors: decline of UKCS and other geologically easy fields, more LNG, shipping and refining bottlenecks
 - Demand factors: high global growth, cold winter in China, gas-oil price link
 - Political factors: tightening of EUETS emission limits, political uncertainty (Middle East, Russia)
- A combination of factors –most are here for the long run

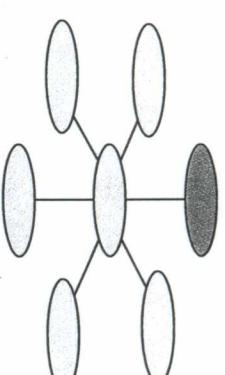
What can the regulator do?

- Scrutinise price rises to ensure only genuine costs are passed through
- Bear down on monopoly costs
 - Since 2006 network regulation has delivered around £85m of consumer benefits (NPV)
- Regulatory strategy
 - To develop competition
 - To ensure sustainable development

Policy responses

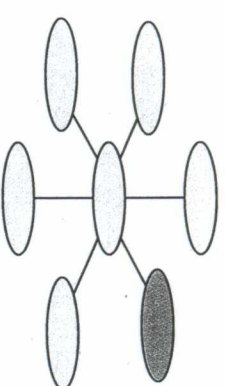


Efficient use of infrastructure



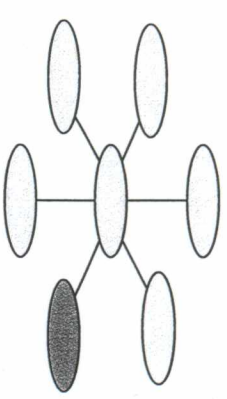
- Regulatory distortions prevent gas being brought from RoI into NI
 - Fall back when SNIP fills up?
 - Corrib?
 - Storage in Kinsale – business case for Larne?
 - LNG at Shannon?
- Common Arrangements for Gas programme aims to remove these distortions
 - All work-streams will be subject to CBA. High-level CBA suggests 10-year net benefits of £10m NPV
 - Legislative implications not yet clear

Reduce fossil fuels



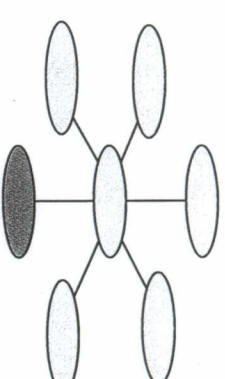
- What is our strategy for wind?
 - Renewables Obligation already highly successful – how much more do we need?
 - Are we planning to export green power?
 - What interconnection do we need for a stable grid?
 - Extra windfarms need grid expansion in the west
 - Planning barriers? - particularly for grid
- Cost?
- What is our strategy for micro-renewables?
 - Integrated advice with energy efficiency?
 - Public subsidy... to what end?

Competition



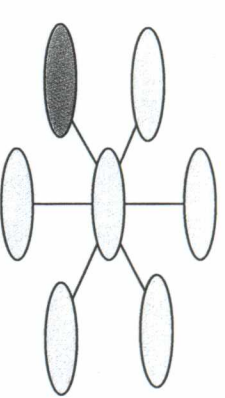
- SEM allows wholesale competition
 - Incentives to build new, efficient fleet
 - Transparent market = investor confidence
- SEM is a platform for retail competition
 - Can we accelerate development of competition?
 - Short-term vs. long-term consumer interest
 - What kind of market?

Gas roll-out



- The main household fuel in NI is oil
 - Highest carbon emissions
 - Record prices, concerns about depletion
 - Least effective regulation of installations
 - Least requirements on energy efficiency
 - Least requirements on fuel poverty
- Gas roll-out has environmental, economic and social benefits
 - Candidate for public subsidy?

Energy efficiency



- Review of Energy Efficiency Levy scheme
 - Clarify objectives. Different approaches for fuel poverty and carbon reduction?
 - Is it big enough?
 - Scope (gas? other fuels? any carbon measures?)
 - Delivery (suppliers only?)
- Need clear and consistent consumer messages
 - Rationale for plurality of advice brands?

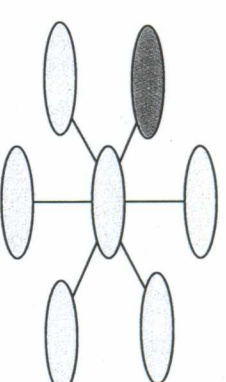
If...

- Fossil fuel prices rise and stay high...
- The EU requires high shares of wind generation...
- Carbon prices quadruple, to come close to the actual economic cost of carbon...
- The UK or EU decides households must also pay the cost of carbon...

... Will we be ready?

- 75% of households reliant on oil or coal, and paying high carbon charges?
- Our grid weak in the west, and our planning system incapable of permitting rapid change?
- Without sufficient interconnection to allow large wind volumes consistent with grid stability?
- Without access to gas storage/import facilities, to shave peak prices and strengthen supply security?
- With energy inefficient houses, businesses, appliances?

Fuel poverty



- Where next?
 - We're already doing more than GB
 - Boost public subsidy?
 - Stronger regulation?
 - Social tariffs?
- Not the regulator's role to drive social policy, but we will respond constructively
 - Targeting is a key factor if 40%+ of consumers are fuel poor
 - Practicability – government holds the data
 - Competition-neutral e.g., a contestable