

DECISION PAPER FOR NIE NETWORKS STANDARD CONNECTION CHARGE FOR THE CONNECTION OF HOUSING SITES WITH 12 OR MORE INDIVIDUALLY SERVICED DWELLINGS

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1. Executive Summary

This decision paper follows a consultation process that sought feedback from stakeholders to the NIE Networks' consultation paper on the Proposed Change to NIE Networks Standard Connection Charge (SCC)¹ for the connection of housing sites with 12 or more individually serviced dwellings. The consultation closed on 11 October 2023 and generated two responses from interested parties.

The consultation set out two options; (1) to apply the current methodology and have a fully cost reflective SCC; or (2) to remove the SCC and have unique dual offers for each development.

This paper sets out NIE Networks' intention to implement option 1 and details the decision that will be submitted to the Northern Ireland Authority for Utility Regulation (UR) for approval.

It is acknowledged that some queries were raised by the interested parties in their consultation responses. These queries will be responded to separately to this decision paper.

2. Background

Under the current charging arrangements to connect a new housing development with 12 or more individually serviced domestic premises to the electricity network, NIE Networks develops the necessary infrastructure for the housing site and then, as each dwelling is connected, the customer (i.e. the site developer) is charged a SCC per dwelling,. Therefore, in most instances the majority of the costs for the connection of the complete housing development will have been incurred ahead of these payments being made. As a result, the Regulatory Asset Base (RAB)² is used to facilitate the timing difference between the costs being incurred by NIE Networks and the payments being made by the customer. If the SCC is not fully cost reflective then any shortfall remains on the RAB and is recovered via distribution network charges that form part of all electricity bills.

The SCC has, since 2019, increased broadly in line with inflation. However, this increase has not resulted in the SCC being fully cost reflective as many costs have increased beyond the level of inflation. As a consequence, there is currently a shortfall between costs incurred and contributions received from customers. This shortfall remains on the RAB and therefore places a burden on the wider customer base.

For a number of years there has been ongoing engagement with the UR and with the Construction Employers Federation (CEF) in relation to how best to address the fact that the

¹ Standard connection charge, as defined in the Statement of Charges for Connection February 2022; The charge levied where a customer wishes to connect a new housing development with 12 or more individually serviced Domestic Premises, or to extend an existing development that qualified for standard connection charging of fewer Domestic Premises.

² Regulatory Asset Base or RAB, definition 'The value ascribed by the Authority to the capital employed in the NIE Networks 'regulated businesses.

SCC is not currently a fully cost reflective charge. This issue has not been fully resolved due to the impact of the Covid19 pandemic and the volatile economic environment since that point. Whilst there remains some economic uncertainty, NIE Networks in conjunction with the UR, consider that the SCC should now be updated so as to ensure it is fully cost reflective.

Given the potential significant increase to the SCC that would result from applying the current approved charging methodology, a consultation process was held which presented two options for consideration:

Option 1 – apply the current methodology and increase the SCC to a fully cost reflective rate.

Option 2 - remove the SCC and issue unique dual offers similar to majority of other connection offers.

The consultation closed on 11 October 2023 and generated two responses from interested parties. Prior to the consultation closing, an engagement session was held between NIE Networks and CEF on 19 September 2023.

NIE Networks welcomes the responses and feedback received from the Construction Employers Federation (CEF), who act as the voice for the industry for their member companies which account for over 70% of construction output in Northern Ireland, and from South Bank Square Limited (SBS Developments).

All non-confidential responses have been shared with the UR and NIE Networks have engaged with the UR in relation to the conclusions detailed in this decision paper.

3. Consultation Responses

NIE Networks would like to thank the respondents for taking the time to share their views on the proposed changes to the NIE Networks Standard Connection Charge for the connection of housing sites with 12 or more individually serviced dwellings.

As noted, two options were presented within the consultation paper with three questions posed asking for stakeholder views. NIE Networks have reviewed and considered responses received and these have been summarised against each question.

3.1 Consultation Question 1

Do you agree with retaining the current approved charging methodology set out in Option 1 as outlined in section 4 to adjust the Standard Connection Charge for housing sites with 12 or more individual dwellings to a fully cost reflective Standard Connection Charge?

Neither of the respondents were in support of the proposal to increase the SCC to a fully cost reflective rate, with the proposed indicative 123% increase which would see the current SCC move from £1,094 to £2,445.

3.2 Consultation Question 2

Or do you agree with the charging methodology set out in Option 2 as outlined in section 5 to remove the Standard Connection Charge for housing sites with 12 or more individual dwellings to a unique dual offer per development?

Neither of the respondents were in support of the proposal to remove the SCC. This would have provided connections of housing sites with 12 or more individually serviced dwellings with a unique full works offer as well as a non-contestable offer as currently provided to all other connecting customers.

3.3 Consultation Question 3

Or do you believe there are other approaches NIE Networks could be considering? Please provide details.

There were no other viable alternative options proposed by either of the respondents in their responses.

4. Decision and next steps

Based on the responses to the consultation and the need to move to a more cost reflective rate, NIE Networks intends to proceed with updating the SCC in line with the current approved charging methodology as stipulated in Option 1 of the consultation paper. This will ensure the SCC is updated to a fully cost reflective charge in line with NIE Networks licence obligations and will enable an appropriate cost recovery that is fair to all customers and other connection providers.

Following the publication of this decision paper the SCC will be recalculated and the final SCC value will be submitted to the UR for approval. The fully cost reflective SCC will then go-live one month after the required changes in the NIE Networks' Statement of Charges for Connection to Northern Ireland Electricity Networks' Distribution System (SoCC) have been approved by the UR.

The SCC will continue to be payable on a site connection basis prior to the installation of the house service cabling. The SCC will be varied if paid at the lower rate, should the installation of service cable to the property not have been installed at that time the SoCC with higher SCC comes into effect. A SCC full works offer will continue to be quoted along with a non-contestable offer as currently provided.

