Decision on MIC Charging Methodology

Decision Paper

NIE Networks
17/09/2020

Contents

1. EXECUTIVE SUMMARY

This Decision Paper concludes NIE Networks' Consultation on MIC Charging Methodology and follows the Consultation Report which closed on the 28th February 2020. This document should be read in conjunction with the Consultation Report[1].

In 2016 the Utility Regulator for Northern Ireland (UR) hosted a public consultation on the Electricity Distribution and Transmission Connection Policy. In their subsequent publication on the Next Steps[2], April 2017, the UR placed an action on NIE Networks to consider appropriate and proportionate measures to release capacity if it is being persistently underused. NIE Networks launched a Call for Evidence (CfE) with the intention of addressing this request and to specifically consider how we can encourage the release of unused capacity to facilitate better utilisation of the networks and lower connection charges for customers. Following the CfE, NIE Networks identified a number of solutions and presented these proposals with the Consultation Report.

There are approximately 5,300 customers connected to the distribution network with a contracted Maximum Import Capacity (MIC) capacity greater than 70kVA and are therefore on a demand tariff that currently includes a capacity charge which is based on their actual maximum demand. However, the MIC for these customers was established at the time of connecting their new electrical load and therefore the MIC must be reserved by NIE Networks when designing the network for existing and new capacity. Of the total number of >70kVA demand customers connected, approximately 4,750 have an aggregated demand circa 600MVA lower that the contracted MIC figure. This is a substantial level of unused capacity on the distribution network which results in expensive and in many cases, unnecessary reinforcement to facilitate the connection of new load.

Currently, existing customers have no incentive to reduce their MIC to a value that closer reflects their usage. Therefore, to address this issue of underused capacity, NIE Networks proposed a complete review of how capacity charges are applied by moving to a charge based on the contracted MIC value. This does not arbitrarily remove unused MIC, but offers a choice to customers, i.e. if they believe that they will need the capacity they can retain it but will pay for it, otherwise reduce the MIC to an agreed value in line with their consumption. This provides a fair approach by delivering a strong incentive to more efficiently utilise the available network capacity.

Changing to capacity charging based on MIC has a knock on effect on how overutilisation of the network is managed. Customers who exceed their agreed MIC limit may create thermal overload and unacceptable voltage variations on the network, and in extremes, create dangerous situations. Before getting to the point of disconnection, NIE Networks attempt to address the MIC excursions through tariff signals by applying exception charges. NIE Networks believes that the present system is ineffective and the impact will be further diminished if MIC capacity charging is introduced. Therefore, under the same consultation NIE Networks proposed the introduction of a fairer but more effective exception charge methodology.

In response to NIE Networks Consultation Report at the start of 2020, we received five responses that provided helpful feedback and insight into stakeholders' thoughts on the proposed changes to the MIC charging methodology. Responses highlighted the importance of communication and engagement from NIE Networks for customers and suppliers and provided a level of support for the proposed changes. We have taken the views and comments provided on board and NIE Networks have decided to proceed with implementing the changes proposed in the consultation paper. We did consider delaying the implementation of the changes to capacity charging due to the current uncertainty in the local economy following on from Brexit and the Covid-19 pandemic. However, we believe that the benefits derived from the freeing up of network capacity to reduce connection and network investment costs will help to facilitate growth in the local economy. We will therefore implement these changes using the proposed two stage phased approach, with Phase 1 taking affect from October 2021 for EHV & HV customers and Phase 2 in the following tariff year for the remaining customers.

[1] https://www.nienetworks.co.uk/documents/regulatory-documents/final-mic-charging-consultation-10-1-2020
[2] https://www.uregni.gov.uk/consultations/electricity-connections-consultation

NIE Networks thanks all the stakeholders that have engaged throughout the consultation on MIC charging methodology and their input into shaping the recommendations.

Within this Decision Paper, the responses provided by respondents to the Consultation Report are evaluated and the changes to MIC charging methodology are summarised with justification and support received through the consultation process.

2. INTRODUCTION

This Decision Paper follows on from NIE Networks' Maximum Import Capacity (MIC) Charging Methodology Consultation, which closed on the 28th February 2020.

NIE Networks received five responses to the Consultation Paper from Belfast Harbour Commissioners, Energia, Energy Storage Ireland, Major Energy Users' Council and Power NI. NIE Networks welcomes the level of engagement received from across the industry which has provided NIE Networks with a helpful insight on stakeholder views across a broad range of related matters and has helped influence the decision presented within this document.

Respondents were generally supportive of NIE Networks' outlined proposals to introduce capacity charging linked to MIC and an escalator methodology applied to exception charging for the over-utilisation of MICs. NIE Networks' desire to utilise the existing networks as efficiently as possible in order to drive down the cost and timescales associated with connecting to the network and to drive down overall network costs which are being met by existing consumers was supported throughout the consultation process.

Respondents believed that it was important NIE Networks took a proactive role to provide expert advice to new and existing customers. It was evident throughout the responses that effective communication from NIE Networks with both the affected customers and suppliers is essential. Respondents also believe that an alternative charging methodology is required for energy storage customers on the network with concern to how storage companies and facilities are charged both MEC and MIC charges as generators and large end users. Further detail on the responses is covered in sections 3, 4 and 5 with a summary provided in Appendix 1.

Following a review of the responses, NIE Networks plan to implement the proposed changes to MIC capacity charging and exception charges. Throughout the process we have engaged with the Utility Regulator and will be advising them of our decision before proceeding. The changes are detailed throughout this Decision Paper and section 7 sets out the implementation plan for the changes in relation to the timelines for implementing the changes. This Decision Paper provides relevant detail on the background and structure of the changes, however further detail can be found within the Consultation Report.

2.1 Background

In 2016 the Utility Regulator for Northern Ireland (UR) held a public consultation of Electricity Distribution and Transmission Connection Policy. It was recognised that a connections market which works well for Northern Ireland consumers is essential for a developing economy. Getting connected easily and at a fair price is important for both demand and generation customers and it is important that other network consumers only pay what is necessary for their energy. It was believed that the lack of capacity in parts of the network is presenting challenges for new customers getting access to the distribution electricity network.

The 2016 consultation asked what should be done to improve the connection process without the need to build additional network which is not always economically justifiable.

In their Consultation on Next Steps, published in April 2017, the UR set out a list of actions on the issues which stakeholders felt important with the expectation that NIE Networks consider what steps they need to take, and to begin delivering on these actions. One of the key actions identified through the process was the recovery of unused network capacity. In section 1.25 of the Next Steps paper, the UR requested that NIE Networks

considers the incidence of underutilisation and considers appropriate and proportionate measures to release capacity if it is being persistently underused.

This paper addresses demand customers who are restricting access for other users through their underutilisation of their contracted capacity or by utilising more than their contracted capacity without NIE Networks' approval.

There are approximately 5,300 medium and large business customers connected to NIE Networks' distribution network. These customers have demands greater than 70kVA and are currently charged a capacity charge based on their maximum demand in kVA. Analysis of their consumption patterns since October 2016 show:

- Approximately 4,780 customers have an aggregated total of actual customer maximum demand of circa 616MVA lower than their total contracted MIC;
- More than three quarters of these customers (approximately 3,800 customers) have an actual capacity demand below 80% of their contracted MIC; and
- Over 500 customers are exceeding their MIC, using a total of 32MVA of unauthorised capacity.

Figures 1 and 2 below summarise this information showing the number of customers and the under/over used capacity.

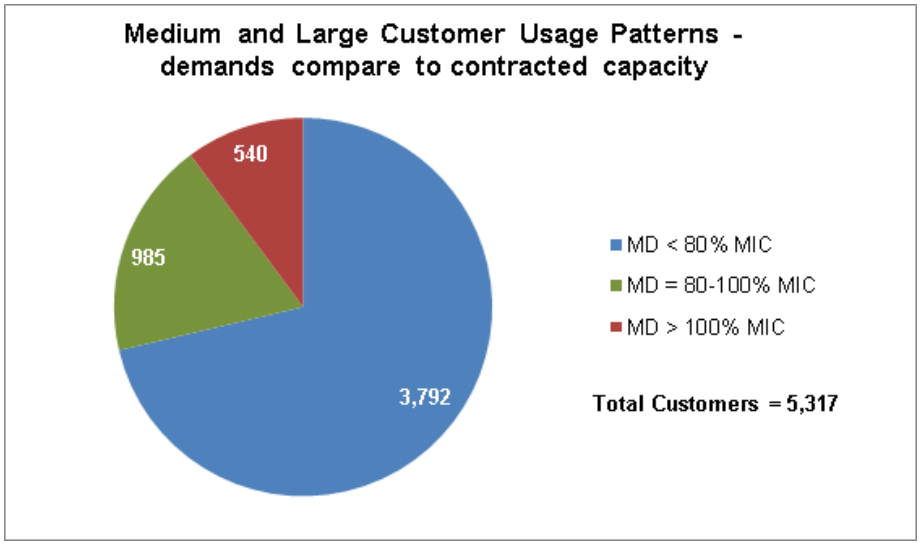


FIGURE 1

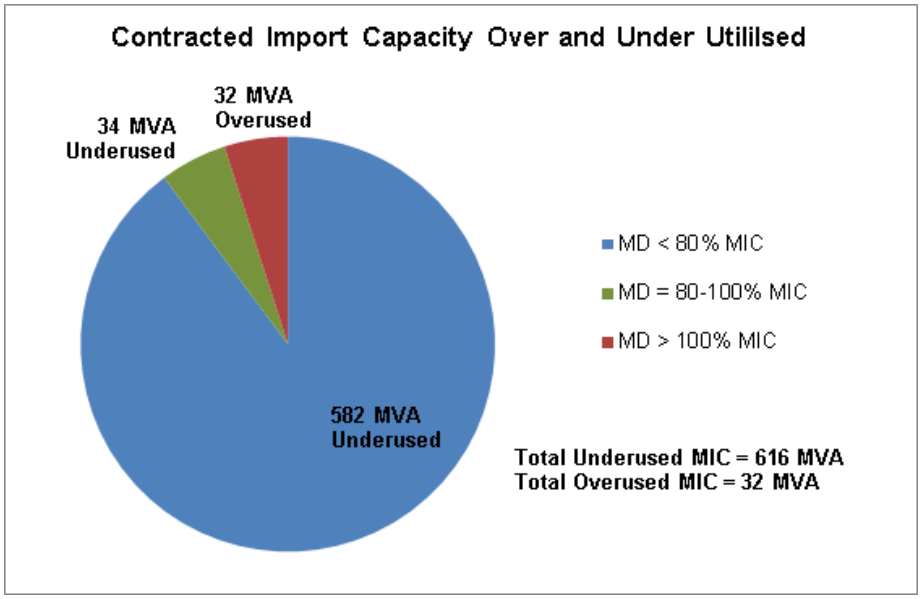


FIGURE 2

2.2 Purpose of this Paper

This paper forms the final step in the consultation process, following on from the Consultation Report which closed on the 28th February 2020. This decision paper considers the responses received through the Consultation Report and presents the conclusions with rationale and justification for changes to capacity charging to free up distribution network capacity.

The aim is to introduce a charging mechanism which will provide cost recovery from those customers not fully utilising their contracted MIC and to one that will send a strong signal to customers to encourage more closely aligning their actual demand to their contracted MIC. This will free up network capacity reducing costs for future connectees and future costs for the general customer body with the avoidance of unnecessary network reinforcement.

Fundamental to the process is **'Customer Choice'**. While the process should be such that it will encourage and enable customers to reduce the MIC value, thereby releasing potential capacity, it will not be forcing customers into such action. Customers will have a choice to retain, reduce or indeed increase their MIC depending on their individual business needs and the processes set out in this paper will provide customers with information that will help them make an informed choice.

This decision paper on MIC Charging Methodology will address the following points presented within the CfE and Consultation Report, and these are again to be considered within this paper;

- Capacity charges based on customer MIC – this paper will set out our decision to change the basis of our capacity charges from customer maximum demand (MD) to the customer contracted MIC. Capacity charges based on customers' MIC will provide a strong incentive for medium and large business customers to reduce their MIC to align with their actual demand needs.

- The impact on customers – this paper will consider the impact on customers' DUoS bills if we move to MIC based capacity charges. In general it is anticipated that customers with MICs which reflect their actual demands will benefit from a reduction in their capacity charges while customers who choose to retain significant unused network capacity in their MIC will face higher capacity charges.

- Opportunity to review individual charges – this paper will explain how customers will be notified of the changes and how they will have an opportunity to review their contracted MIC.

- Review of Penalties for over-utilisation – this paper will set out our decision in relation to charging signals to prevent customers putting the network at risk by exceeding their contracted MIC.

- The timing of the introduction of the new structure – this paper sets out the timeline for implementing the changes to the tariff structure for capacity charging and for changes to MIC exception charging.

3. CAPACITY CHARGING

3.1 Current Charging Structure

Customers' electricity bills are made up of different elements, including Network Charges. The distribution network charges are set out in NIE Networks' Distribution Use of System (DUoS) charges and are set annually to recover the cost of building, operating and maintaining the distribution network in Northern Ireland. DUoS charges look to provide users with signals about how their behaviours can increase or reduce costs on the network such as investment and operational costs.

NIE Networks' DUoS tariffs for customers with MICs greater than 70kVA are made up of standing charges (per charging period), unit charges (per kWh & kVarh) and capacity charges (per kVA). In general standing charges are set to recover fixed costs per user such as the cost of meters and meter reading, while unit and capacity charges are set to recover the cost of network development, maintenance and operation.

NIE Networks currently apply capacity charges to customers with a connected capacity greater than 70kVA based on the customer's Maximum Demand (MD). The customer's MD in kVA is recorded between 0800 and 2230. The highest MD recorded in the current or last tariff year is referred to as the customers' chargeable service capacity (CSC). A monthly charge is applied for each kVA of CSC. Currently, if a customer's active or reactive demand spikes in a single half hour, they can be charged the CSC charge based on that peak for a maximum period of two years, i.e. to the end of the following tariff year.

3.2 Capacity Charging based on Customer MIC

In Great Britain and the Republic of Ireland, the distribution companies apply capacity charges to business customers based on their contracted MIC to encourage efficient use of available network capacity. In the CfE and consultation report, NIE Networks proposed to adopt a similar approach of basing capacity charges on customer MIC rather than customer MD, to introduce a price signal to encourage efficient use of capacity on the distribution network. Having considered the responses to the consultation (which are summarised below), NIE Networks have decided to proceed with implementing the changes to capacity charging.

Changing the basis upon which capacity charges are applied will provide a strong incentive to customers to reduce their MIC to align with their actual demands. This will release the unused MIC capacity for other customers to connect or increase their existing supply capacity, and thereby avoid unnecessary network reinforcement which is either funded by individual customers in their connection charge or by the wider customer base if the cost of the reinforcement has to be socialised.

The totalised aggregated customer MIC capacity will be higher than the equivalent aggregated MD in kVA on which the CSC is based. As NIE Networks' regulated distribution allowances are fixed, changing the basis of capacity charges to the customer's MIC will be facilitated by a reduction in our price per kVA. This will ensure the same total DUoS revenues are recovered from charges based on higher capacity volumes (MIC versus MD).

The impact on individual customer electricity bills will depend on the relativity between (i) the amount the customer's chargeable capacity increases, i.e. their MIC versus MD, compared to (ii) the reduction applied in

the capacity price for their tariff group. Customers with MICs which closely reflect the network capacity that they actually use will be rewarded with reduced capacity charges (due to the reduction in capacity price); and customers who retain significant unused network capacity in their contracted MIC will receive higher capacity bills because the increase in the kVA to which the capacity charge applies will be greater than the reduction in the DUoS tariff capacity price.

NIE Networks' changes to MIC charging are:

- Customers with MIC greater than 70kVA will be charged for network capacity based on their contracted MIC in kVA multiplied by the MIC price.
- If a customer applies for a reduction to their contracted MIC, their MIC charge will reflect this reduction from the first day in the next billing period (generally calendar month) following NIE Networks' confirmation of the MIC reduction.
- Before NIE Networks' would implement a change to capacity charging, we will contact all impacted customers to give them the opportunity to confirm their MIC or to change their MIC, or to change tariff, where applicable.
    - Where a customer decides to reduce their MIC they will effectively be releasing a proportion of their unused capacity. In doing so, the customer should be aware that they will have no future claim over this released capacity. If the customer determines a future need for an increase in their service capacity, they will be required to make an application to increase their MIC through the normal connection process.
    - Customers wishing to increase their MIC during this process will be required to make an application through the normal connection process. Further details of the planned customer engagement are described in section 3.3 below.

3.3 Customer Engagement

NIE Networks' are planning a two stage customer engagement process prior to the implementation of MIC charging. This engagement process will encourage all impacted customers to review their existing MIC and, where relevant, allow the customers an opportunity to agree a lower MIC to reduce their future capacity charges. Customers with actual maximum demand less than 70kVA could also opt to change tariff by reducing their MIC below 70kVA.

The two stage customer engagement process is:

Stage 1 – Inform each affected customer of the changes to capacity charging arrangements, stating the MIC value that NIE Networks' holds on record for their site. The process will provide the customer with the opportunity to review the MIC held on record and agree an alternative value if desired. Where the customer's actual maximum demand is less than 70kVA, the customer would have the option to change tariff by reducing their MIC below 70kVA and potentially reduce their DUoS bill. This applies to LV customers only.

We will also inform individual customers' supply companies to facilitate further customer/supplier engagement and the opportunity for the supplier to offer assistance to their customers. We highlight the importance of supplier involvement in this process as NIE Networks issue DUoS bills to suppliers, and therefore changes to DUoS bills resulting from the introduction of MIC charging will be incurred by the suppliers in the first instance.

Stage 2 – Following a review of all affected customers and any associated amendment to individual MIC values or tariff changes, a second engagement will be undertaken. This will provide a second review of the impact the changes will have on individual customers. This engagement will offer customers a second opportunity to review and agree MIC values ahead of the introduction of the new charging methodology.

This second engagement will also make it clear that subsequent to the introduction of the new charging methodology, customers will continue to have the right to agree a revised MIC value.

3.4 Response to Consultation Questions regarding MIC Charging Policy

NIE Networks received five responses to the Consultation Paper:

- Belfast Harbour Commissioners
- Energia
- Energy Storage Ireland
- Major Energy Users' Council
- Power NI.

A summary of Consultation Report Responses can be found in Appendix 1 of this paper.

In general, respondents were supportive of NIE Networks' desire to utilise the existing network as efficiently as possible in order to drive down the cost and timescales associated with connecting to the network and to drive down overall network costs which are being met by existing consumers. However, all respondents highlighted the importance of NIE Networks to engage with customers and suppliers throughout the process, ensuring that the necessary amendments and processes are implemented in a timely and open manner, with communication vital to the success of this. Respondents believed that customers should be treated fairly, especially those who are giving up capacity on the network which they funded.

Within the Consultation Report NIE Networks asked stakeholders to respond to nine specific questions on MIC Charging Methodology and timelines, three of which are in this section dealing with underutilisation. The remaining six questions fall under sections 4 and 5 regarding dealing with overutilisation and implementation timelines. This section now summarises the responses to each of the questions on underutilisation from the Consultation Paper.

A number of general responses from the consultation made comment on both the current and proposed capacity charges in regard to energy storage customers. Respondents noted that as energy storage systems have both an MEC and MIC there is currently an issue of double-charging whereby storage is treated as both a generator and a large end user customer even though they are not the final consumers of the stored energy. They claimed that this is effectively double charging these assets and represents a significant barrier to energy storage development in NI. Respondents made reference to work carried out by Ofgem in GB and approaches adopted in the Republic of Ireland as potential solutions to MIC charging in NI. Recommendations that specific charging methodologies are put in place and applied to large scale storage technologies were proposed by respondents and would see storage units becoming either, exempt from UoS charges or only charged appropriate demand related UoS charges on their auxiliary house load when idling. We have noted these comments and will consider them outside of this consultation process as the issues raised are wider than the scope of MIC charging. We are aware that both regulatory authorities, North and South, are intending to review the charging methodology applied to storage devices connected to the distribution networks in both jurisdictions and we understand this is scheduled for later in 2020. NIE Networks are also intending to undertake a complete review of tariff structures which was identified in the decision paper following our 'Greater Access to the Distribution Network' consultation, as being required to facilitate the move to a low carbon network.

3.4.1 Consultation Question 1

Q1 – Do you believe that new and existing customers would benefit from releasing underutilised capacity on the distribution network?

3.4.2 Respondent's View

Responses to this question were indifferent, with one respondent in agreement, another in disagreement and the remaining three either indifferent or non-responsive to the question. Two responses highlighted their agreement that new and existing customers could benefit from the release of inefficiently used and underutilised capacity, however noted they would also expect customers who made a financial contribution towards network reinforcement when seeking their current supply capacity requirements would also receive some financial compensation if they voluntarily released the capacity for which they had earlier made a cost contribution.

A respondent noted their disappointment that NIE Networks haven't undertaken substantive research into why customers find themselves in the position of having underutilised capacity as this may have provided helpful insight into the root cause of the issue, challenging the assumption of capacity hoarding as suggested within the Consultation Report.

The need for communication and a warning of the disruption to customers that may be caused was raised to NIE Networks' attention. A customer's contractual supply and billing relationship lies with the supplier and so NIE Networks' communication in relation to this change should be in conjunction with the supplier. The respondent believed that NIE Networks must provide communication and guidance with not only their customers, but suppliers, regulators and wider industry bodies.

Another response felt the proposed methodology would act as a financial impediment to the provision of future capacity using the infrastructure already invested in. Many customers have invested specifically in the provision of infrastructure which will facilitate growth in its own and its customers businesses. The concern was also raised that the electricity network is ever evolving and consumers needs rise and fall over time, so releasing what may be viewed as underutilised today, would have unwelcome consequences for future users and the economy.

3.4.3 NIE Networks' Response

We welcome the responses that agreed that new and existing customers could benefit from the release of inefficient use of and underutilised capacity.

In regard to the concern that where customers have invested in infrastructure they should be compensated in return for giving up capacity, the first and main point that we must make clear is that at no point in this process will NIE Networks be forcing customers to reduce their contracted MIC. NIE Networks will set out a tariff structure that provides a financial incentive to customers to consider their supply capacity requirements along side their medium to long term business plan. We would also point out that connection costs are primarily made up by the 'connection asset', i.e. the equipment that is installed to solely connect the customer to the existing electricity network. However, in connecting at a point to the existing network, the customer will require to share a proportion of the capacity of the existing network which in effect has already been paid for by the Northern Ireland customer base through socialised charging. It is the capacity of this shared network that NIE Networks hope to free up for other users through the implementation of a MIC Charging Policy.

NIE Network acknowledges and is aware that there are many reasons why customers may be underutilising their MIC. This will range from an over estimation of requirements at the original connection stage, a downturn in the market in which they are operating, internal investment in more efficient processes or a change of owner operating in a different business with a lower energy requirement. We therefore recognise that it may not be the customer's intension but the effect is to be holding unused network capacity. Of the reasons for underutilisation, NIE Networks has the greatest input at the connection stage where our Connections Team

work with new customers to help them through the connections process. While we will always endeavour to assist where possible in the determination of the customer's future demand requirement, the customer and/or their consultants will have a more in depth knowledge and experience of their own business and processes and therefore must ultimately advise NIE Networks of the required capacity. Again, we must emphasis that it is not our intention to force customers into reducing their MIC but only to create an incentive to consider along with their business plan.

We have taken the comments on the need for clear communication channels with both the customer and their Supplier on board and, as proposed in the consultation we will adopt a two stage approach through the process of customer engagement which will include notifying their Suppliers.

NIE Networks does not believe that the MIC charging methodology will act as a financial impediment to the provision of future capacity. This relates closely to the points made in the second paragraph in this section regarding the sharing of capacity in the deeper network. And again, we must emphasis that it is not our intention to force customers into reducing their MIC but only to create an incentive to consider along with their business plan. In their publication on the Next Steps, April 2017, the UR was clear that they did not believe that it was fair for customers to retain a larger proportion of the shared network assets which have been funded by the general customer base if the capacity is persistently being underused and therefore being denied to other potential customers wishing to connect. We believe that the methodology proposed in the consultation paper best addresses this issue and therefore we will proceed with implementing the MIC charging methodology.

3.4.4 Consultation Question 2

Q2 – Do you agree with NIE Networks' proposed approach for recovering underused network capacity by moving to a MIC charge as outlined in Section 3.5 of the Consultation Report?

3.4.5 Respondent's View

We received 4 responses to this question. Two were relatively indifferent with one consumer each in agreement and disagreement.

In agreement, one response stated customers should pay appropriately for their capacity requirements while recognising that capacity requirement calculations are often carried out by third parties and are often overestimated on the basis of being safe rather than sorry. Two responses noted that the proposal brings NI in line with GB and ROI, and identical processes would best allow standardisation and the sharing of best practice.

In disagreement was a respondent who outlined, as they are the provider of infrastructure to a large section of the regional economy, they considered a different approach would be required to reflect the changing needs of their local industry and its stakeholders.

3.4.6 NIE Networks' Response

We welcome the responses that agreed that customers should pay appropriately for their capacity requirements and that the proposal brings capacity charging into line with GB and ROI. We are also grateful for the acknowledgement that at the connection application stage capacity requirements can be exaggerated and ultimately NIE Networks must design the connection arrangement for what the customer requests.

In response to the respondent who requested NIE Networks to consider a different approach as they are the provider of infrastructure to a large section of the regional economy, we would again refer to the point we made in 3.4.3 in regard to retention of shared capacity on socially funding network.

3.4.7 Consultation Question 3

Q3 – Do you believe the proposed two stage engagement process as set out in Section 3.6 of the Consultation Report and the planned timeline for the introduction of the proposed changes as set out in

Section 5 of the Consultation Report, provides affected customers sufficient time and information to understand how the changes will impact their business and to be able to take the appropriate actions?

3.4.8 Respondent's View

This question received largely no response; however the one respondent was in agreement. The response agreed that the proposed two stage process should provide sufficient time from an information point of view, however stated whether any changes can be made in that time and the impact on business continuity will differ from business to business. They do not believe a one solution fits all approach will be the best way forward, suggesting solutions and timescales may need to be tailored for individual cases.

Another response noted that robust market sounding should be carried out prior to the introduction of any methodology, however stated that the final decision on methodology should be made prior to entering the proposed two stage engagement.

3.4.9 NIE Networks' Response

Again we welcome the response that agreed that the proposed two stage process should provide sufficient time to provide information to allow customers to make timely decisions regarding their MIC requirement. We believe that our proposal to write to each individual customer affected, and to their suppliers, twice in the process to explain how the change to MIC charging will impact them and the action that they can take, adequately addresses the concern raised.

It is NIE Networks' view that a publicly available CfE and Consultation is the accepted normal process for undertaking market soundings and having done so, and having taken into account the responses in making our decision, we believe we have adequately addressed this issue.

4. EXCEPTION CHARGES FOR EXCEEDING MIC

In the Consultation Report NIE Networks also addressed the issue of overutilisation of the customer's agreed MIC. Such circumstances not only creates a potential safety issue by operating network equipment beyond its rated limit and can adversely affect the quality of supply experienced by other users, but it also increases costs for other customers who follow the correct process when applying for the connection of new load.

The following section revisits the current arrangement and the proposals made in the Consultation Report and reviews the responses received to the questions. For further information on the proposed exception charges, how they will be implemented and an example, see the Consultation Report.

4.1 Current arrangements for MIC Exception Charges

A customer's MIC is established at the time of connection and is based on the information provided at the time by the customer to NIE Networks. This establishes the load profile for the site and the potential peak demand which is used by NIE Networks to size the equipment required to connect the customer and to ensure that there is capacity in the deeper network for the additional load. This peak demand requirement is then agreed as the site's MIC.

NIE Networks, in compliance with its MIC Management Policy, try to discourage customers from exceeding the agreed MIC by applying exception charges. These are additional capacity charges which are applied to each kVA above the MIC and are applied on a monthly basis until the customer reduces their demand back to the MIC or makes application to NIE Networks for the increased capacity. At present NIE Networks puts the exception charges on hold if the customer makes an application to NIE Networks for additional capacity. Currently NIE Networks experience further problems where some customers who continue to exceed their MIC make successive applications to avoid the exception charges being applied.

Ultimately, NIE Networks have the right to disconnect customers who are putting the network at risk through such actions, particularly where there is a potential health & safety risk. However, this is considered an option of last resort.

4.2 MIC Exception Charging

In the consultation report, NIE Networks' set out proposals for MIC Exception Charging. The consultation responses have been reviewed, and are discussed below, and we have decided to proceed with implementing the changes to MIC exception charging. The changes for MIC exception charging are summarised here:

- MIC exception charges will be calculated on a monthly basis and charges will be applied per kVA above the MIC value.
- The MIC exception charge will be calculated based on the number of instances (i.e. number of Half Hour periods) where the MIC has been exceeded during the course of the month, for example, a customer may exceed their MIC during one half hour period in the month or consistently exceed their MIC in several half hour periods on a daily basis (i.e. up to 1,440 instances in a 30 day month).
- The MIC exception charge will also be calculated based on the number of months in which the MIC has been exceeded in a rolling 12 month period.
- MIC exception charges will be applied from the first month in which the MIC has been exceeded. There will be no lead in period.
- MIC exception charges will be applied to all applicable customers even where they have entered the process for increasing their existing MIC. In such circumstances the charges will continue to be applied if the customer continues to exceed their MIC and will only be removed once the new increased capacity terms have been accepted and the full works completed or where the customer reduces their peak demand back below the agreed MIC.

To remove exception charges, customers are required to reduce their peak demand to a level at or below their contracted MIC or alternatively, they should make an application to NIE Networks to increase their MIC to the recorded higher MD and should submit all the relevant information within their application. NIE Networks will assess the application and the outcome will be either:

- If the supply is deemed to be adequate, NIE Networks will issue terms and a revised Connection Agreement for increasing the MIC and the MIC exception charges will cease with the customer's acceptance of terms.
- If it is determined that the supply is not adequate, the application will progress to determine the level of reinforcement works required and their associated costs. MIC exception charges will be applied until the load has been reduced or the terms for the reinforcement work has been accepted by the customer and the associated Connection Agreement and reinforcement works completed.

Table 1 below provides example MIC exception prices. The prices provided in Table 1 are for illustration only and the charges submitted to the UR for approval may be different. The table shows that the MIC exception prices increase based on the number of instances where the MIC has been exceeded in the month, and the prices also increase based on the number of months that the customer has exceeded their MIC. The MIC exception prices will be applied on a per kVA basis.

MIC Charge Category	Number of Instances in Month	MIC Exception Price (£/kVA)											
		Mth 1	Mth 2	Mth 3	Mth 4	Mth 5	Mth 6	Mth 7	Mth 8	Mth 9	Mth 10	Mth 11	Mth 12
Category A	1-20	4.00	4.80	5.76	6.91	8.29	9.95	11.94	14.33	17.20	20.64	24.77	29.72
Category B	21-100	4.80	5.76	6.91	8.29	9.95	11.94	14.33	17.20	20.64	24.77	29.72	35.66
Category C	101-200	5.76	6.91	8.29	9.95	11.94	14.33	17.20	20.64	24.77	29.72	35.66	42.79
Category D	201+	6.91	8.29	9.95	11.94	14.33	17.20	20.64	24.77	29.72	35.66	42.79	51.35

TABLE 1

4.3 Response to Consultation Questions on Over Utilisation of MIC

The Consultation Report asked stakeholders to respond to three questions on the proposals to deal with overutilisation. In this section, the responses to each of these questions are summarised.

4.3.1 Consultation Question 4

Q4 - Do you agree that the application of exception charges to customers who exceed their assigned MIC rather than resorting to potential disconnection, is an acceptable tool to ensure the continued safe operation and security of the distribution network?

4.3.2 Respondent's View

Responses were in agreement with the application of exception charges and made reference to a number of areas for consideration. A respondent believed that this is only one step in the awareness process and organisations, such as network operators, suppliers and customer representatives, need to be pro-active in convincing customers of the dangers to business continuity. Excess MIC excursions and possible site disconnection are dangers to business continuity as a result of overload and protection device operation.

Support for the phased, consultative approach was also received with note that care should be taken to ensure that exception charges do not act as a disincentive to business and economic growth, being mindful that where non-domestic customers have increased their usage, they are creating an economic benefit for the region.

Consideration must be given that any processes to be implemented should be transparent and evidence based with NIE Networks ensuring that processes and procedures are in place to facilitate the quick and permanent resolution of the issue.

4.3.3 NIE Networks' Response

NIE Networks welcomes the responses that recognised the dangers to public safety and also business continuity resulting from customers exceeding their supply capacity.

We also recognise the concern that exception charges should not act as a disincentive to business and economic growth. However, public safety is our primary concern where network infrastructure is being seriously overloaded and NIE Networks are obligated to take action as and when we identify a potential risk. Ultimately, disconnection removes this risk but would most definitely have an immediate impact on the customer's business. Our proposal for an escalator approach to exception charges results in lower charges for occasional excursions. The escalator is designed to identify the excessive and persistent overloading early, i.e. the highest potential risk, and to provide a stronger incentive to act.

Where an existing customer makes an application for increased capacity, and where the capacity is already available from the network, NIE Networks can confirm to the customer that their existing supply is adequate relatively quickly issue terms and a revised Connection Agreement for increasing the MIC and the MIC exception charges will cease with the customer's acceptance of terms.

However, where a customer makes an application for increased capacity and where it is shown that the proposed increase is beyond the rating of the network, NIE Networks must ensure that the necessary reinforcement work is completed before allowing the increased load to be connected or continue to operate.

It is imperative that customers make an application for increased capacity at the earliest opportunity to https://www.nienetworks.co.uk/connections/upgrade-your-supply to understand which scenario above applies to their connection to allow them to make an informed decision on their MIC.

Early engagement in the connections process will be strongly recommended as part of our first stage of customer engagement.

Deferring the introduction of MIC Exception Charging through the proposed phased introduction in October 2021 and October 2022 will allow customers to engage early in the connections process. This will allow customers to make informed decisions about their MIC and to implement the appropriate changes before the new MIC charges and MIC exception charges take affect.

4.3.4 Consultation Question 5

Q5 - Do you agree with NIE Networks proposed approach of applying an escalator methodology based on frequency and persistence of occurrences rather than a flat rate is a fairer approach for managing customers who exceed their agreed MIC?

4.3.5 Respondent's View

Support was received for the escalator methodology, with two respondents in agreement.

Despite being in agreement with the escalator methodology and different charges applying for different degrees of excess, one response stated a preference to see a charging method based on a percentage of the normal charge (i.e. 120% - 200% of the normal Charging Capacity).

Concern was raised that the quoted figures in the tables under section 4.4 of the Consultation Report appear excessive; however the respondent noted their awareness that these figures were included as examples only.

The escalator method provides an opportunity to alert customers who unintentionally exceed their MIC and it was made aware that NIE Networks should be prepared to assist customers and respond rapidly to MIC exceedance and the avoidance of penalties, especially where there is no risk to the network.

4.3.6 NIE Networks' Response

We appreciate the responses supporting our proposed approach to the application of exception charges. We also acknowledge that the figures quoted in the table provided were only being used as an example to demonstrate the proposed methodology. As with all DUoS tariff charges, the final exception charges will be agreed on an annual basis with the Utility Regulator to ensure the recovery of network costs remains in line with the overall regulatory allowance.

We also recognise that there are alternative methodologies that could be deployed such as applying a charge based on a percentage of normal charges. However, the escalator methodology more adequately address the concerns expressed by respondents to the original CfE in that it is designed to minimise any adverse impact on the customer who marginally overshoots their MIC on a one off basis.

As per our response to comments received in question 5, where an existing customer makes an application for increased capacity, and where the capacity is already available from the network, NIE Networks can confirm to the customer that their existing supply is adequate relatively quickly.

However, where a customer makes an application for increased capacity and where it is shown that the proposed increase is beyond the rating of the network, NIE Networks must ensure that the necessary reinforcement work is completed before allowing the increased load to be connected or continue to operate.

4.3.7 Consultation Question 6

Q6 - At present NIE Networks puts the exception charges on hold if the customer makes an application to NIE Networks for the additional capacity. It is proposed that this will no longer be the case under the changes to MIC exception charges. MIC exception charges will be applied from the first month in which the MIC has been exceeded.

To remove exception charges, customers are required to reduce their peak demand to a level at or below their contracted MIC or alternatively, they should make an application to NIE Networks to increase their MIC to the recorded higher MD and should submit all the relevant information within their application. NIE Networks will assess the application and the outcome will be either:

- **If the supply is deemed to be adequate, NIE Networks will issue terms and a revised Connection Agreement for increasing the MIC and the MIC exception charges will cease with the customer's acceptance of terms.**
- **If it is determined that the supply is not adequate, the application will progress to determine the level of reinforcement works required and their associated costs. MIC exception charges will be applied until the load has been reduced or the terms for the reinforcement work has been accepted by the customer and the associated Connection Agreement and reinforcement works completed.**

Do you agree that this process is a fair approach to manage customers whose exceeding of their agreed MIC is putting the network at potential risk?

4.3.8 Respondent's View

Responses were indifferent to this question with responses neither highlighting their agreement nor disagreement, instead support was received for communication and treating each customer on their own merits.

A triaging method to analyse customers who may put the network at risk by exceeding MIC and those who may not put the network at risk through MIC exceedance was proposed. The suggestion commented that the customers falling into these two categories be treated accordingly.

It was made aware to NIE Networks that customers who voluntarily reduce their MIC to values closer to their maximum demand will make them more vulnerable to excess charging when small changes in processes occur. The view that sufficient time must be allowed for such customers to regain their agreed levels through discussions and expert advice was provided. It was also noted however, that customers with a long history of excess usage have exception charges applied immediately, but again only after verbal and written warning.

4.3.9 NIE Networks' Response

Again we are grateful for the responses received and note that we did not receive any negative responses. Regarding the comment on a triaging methodology, we believe that our proposal for an escalator approach to exception charges results in notification and lower charges for occasional excursions. The escalator is designed to identify the excessive and persistent overloading early, i.e. the highest potential risk, and to provide a stronger incentive to act.

Where an existing customer makes an application for increased capacity, and where the capacity is already available from the network, NIE Networks can confirm to the customer that their existing supply is adequate relatively quickly. NIE Networks will issue terms and a revised Connection Agreement for increasing the MIC and the MIC exception charges will cease with the customer's acceptance of terms.

However, where a customer makes an application for increased capacity and where it is shown that the proposed increase is beyond the rating of the network, NIE Networks must ensure that the necessary reinforcement work is completed before allowing the increased load to be connected or continue to operate.

It is imperative that customers make an application for increased capacity at the earliest opportunity to https://www.nienetworks.co.uk/connections/upgrade-your-supply to understand which scenario above applies to their connection to allow them to make an informed decision on their MIC.

Early engagement in the connections process will be strongly recommended as part of our first stage of customer engagement.

Deferring the introduction of MIC Exception Charging through the proposed phased introduction in October 2021 and October 2022 will allow customers to engage early in the connections process. This will allow customers to make informed decisions about their MIC and to implement the appropriate changes before the new MIC charges and MIC exception charges take affect.

5. TIMELINES

Section 3 and 4 of this paper set out our decisions for moving to MIC charging and for changes to the way in which we charge customers for exceeding their contracted MIC respectively. Within this section of the decision paper we set out our decision for the timelines in which these changes would be implemented.

Previously in the CfE we suggested that MIC charging could be introduced into the tariffs one year after the date that the CfE was published. However, in response to the feedback from the CfE we recognised the need for a more comprehensive plan of engagement with customers and suppliers prior to making any changes to the capacity charging arrangements and therefore, in the consultation report, we proposed to defer the implementation to allow for this engagement. Two alternative timelines were proposed within the consultation report.

5.1 Timeline options for implementing changes

In the consultation report we considered two options in relation to the timelines for implementing the proposed changes to MIC charges and MIC exceptions:

- Single Step Transition: All changes implemented from 1 October 2022 (tariff year 2022/23)
- Phased Approach: Phased implementation where all changes for EHV and HV customers are implemented from 1 October 2021 (tariff year 2021/22) and all changes for LV customers are implemented from 1 October 2022 (tariff year 2022/23).

5.1.1 Single Step Transition: All changes implemented from 1 October 2022

Under this option MIC charging would be introduced for all customers with MIC greater than 70kVA from 1 October 2022 in the 2022/23 DUoS tariffs. The changes to MIC exception charging would also be introduced for all relevant customers on the same date.

This provides a single changeover date for all medium and large business customers where the existing CSC charging and exception charging processes cease and the new MIC charging and new MIC exception charging process will commence. A comprehensive engagement with around 5,300 customers and their suppliers could then take place prior to the implementation of the new MIC and MIC exception charging arrangements. This should allow sufficient time for customers to review their connected capacity requirements and make the appropriate changes to their contracted MIC, where relevant, to reduce their capacity charges under the new charging arrangements.

5.1.2 Phased Approach: Phased implementation from 1 October 2021 and 1 October 2022

The alternative option was for a Phased Approach which would be in two stages:

- Phase 1: MIC charging would be introduced for all EHV and HV customers from 1 October 2021, in the 2021/22 DUoS tariffs. The proposed changes to MIC exception charging would also be introduced for all EHV and HV customers on the same date. The current capacity charging arrangements would be retained for LV customers.

- Phase 2: MIC charging would be introduced for all LV customers with MIC greater than 70kVA from 1 October 2022, in the 2022/23 DUoS tariffs. MIC exception charges would also be introduced for these customers on this date.

The key advantage of this option is that it will allow a more focused approach to the engagement with customers and suppliers.

Despite smaller numbers of EHV and HV customers (around 450 customers), these customers make up nearly 50% of the total under used capacity where maximum demand is less than 80% of contracted MIC (282MVA). In addition, nearly half of the aggregated exceeded capacity can be attributed to EHV and HV customers (15MVA).

As EHV and HV customers are in general the largest customers in Northern Ireland, the financial impact of introducing MIC charges to these customers may be greater than for LV customers depending on their MIC usage.

This offers a phased approach which allows for potentially greater engagement with smaller numbers of customers at phase 1 and also provides an opportunity for learning before engaging with a larger number of customers in phase 2. It also allows NIE Networks to better predict the reaction of customers to the changing MIC methodology and therefore reduces the risk of potential volatility in the capacity charge element of future tariffs.

Having considered the responses to the consultation report (which is summarised below), NIE Networks has decided to implement the changes to MIC charging and MIC exception charging using the phased approach. This means the changes will be initially introduced for EHV and HV customers from 1 October 2021, with the changes for LV customers being implemented one year after from 1 October 2022. We did consider delaying the implementation of the changes to capacity charging due to the current uncertainty in the local economy following on from Brexit and the Covid-19 pandemic. However, we believe that the benefits derived from the freeing up of network capacity to reduce connection and network investment costs will help to facilitate growth in the local economy.

5.2 Response to Consultation Questions on Timelines

The Consultation Report asked stakeholders to respond to three questions about the implementation of changes and the two proposed timelines. In this section, the responses to each of these questions are summarised.

5.2.1 Consultation Question 7

Q7 – What are your views and preference on the proposed options for the timelines to implement MIC charging and the changes to MIC exception charging?

5.2.2 Respondent's View

No preference to either timeline was indicated by any of the respondents to this question. Support was given to both of the proposed options and the need for much customer interaction before any penalty application was again reemphasised.

5.2.3 NIE Networks' Response

NIE Networks note that there were no clear response in support of either position but we do recognise the need for clear communication with affected customers throughout the process. Consequently, we decided to adopt the phased approach as we believed this will provide more time for engaging with customers and the opportunity to gain learning before moving to phase 2.

5.2.4 Consultation Question 8

Q8 – Do you believe that a phased implementation approach would benefit customers more by allowing for a more focused customer engagement and reducing the potential risk of volatility in future capacity charges?

5.2.5 Respondent's View

Respondents were in agreement that a phased implementation would benefit customers. There was strong support for customer engagement to keep customers updated with progress and encouragement for NIE Networks to publish the plans for the change and to engage with suppliers.

A respondent suggested that although the phased approach may assist with the management of the implementation, it will not assist with the longer term supply requirements of some customers and those who have invested in the provision of HV connections and capacity that meets the future needs of the local economy.

5.2.6 NIE Networks' Response

NIE Networks agree that the phased approach provides the better option for clear communication with affected customers throughout the process. For this reason we have decided to adopt the phased approach as we believed this will provide more time for engaging with customers and the opportunity to gain learning before moving to phase 2.

We believe that the response referring to customers who have invested in HV connections has been addressed under Section 3 of this paper.

5.2.7 Consultation Question 9

Q9 – Do you have alternative suggestions on how NIE Networks should introduce the changes to MIC charging and application of exception charges, should that be the ultimate recommendation following the outcome of this consultation process? If yes please outline in detail your proposal.

5.2.8 Respondent's View

No alternative suggestions to NIE Networks' proposed timelines were provided.

5.2.9 NIE Networks' Response

As no alternative suggestion were submitted, NIE Networks will adopt the phased approach on the basis that it will provide more time for engaging with customers and the opportunity to gain learning before moving to phase 2.

6. OUR CONCLUSION

NIE Networks believe that from the responses received there was an underlying view that the application of a MIC Charging Policy is an appropriate mechanism for efficiently managing network capacity provided it is introduced in a fair way and with appropriate customer communication. For this reason we have concluded to proceed with the outlined proposals within the Consultation Report to make changes to the MIC capacity charging methodology and introduce the proposed MIC exception charges. With the support received through the consultation process and the feedback received NIE Networks consider these changes appropriate and proportionate.

NIE Networks' changes to capacity charging based on customer MIC will involve customers with MIC greater than 70kVA being charged for network capacity based on their contracted MIC in kVA. NIE Networks' propose contacting all impacted customers to give them the opportunity to confirm their MIC or to agree a lower MIC, or to change tariff, where applicable before implementing any changes. Customers wishing to increase their MIC will be required to make application through the normal connection process.

This will deal with NIE Networks obligation to address the underutilisation of the network and the potential for unnecessary reinforcement being charged to new connectees. NIE Networks considers the measures appropriate to release capacity being persistently underused. The actions to be taken will free up capacity on the existing network infrastructure to allow future customers to connect without incurring high and sometimes unnecessary reinforcement charges.

NIE Networks will also implement changes to the exception charges to ensure that there is a sufficient penalty to customers who exceed their MIC. The changes will ensure a fairer approach through the application of an escalating charge which is based on the number of instances of exceedance within the month (i.e. the number of Half Hour periods) and the frequency of exceedance within a 12 month period, with charges applied per kVA above the MIC value. This proposal will ensure that those customers who exceed their MIC as a 'one off' will face a minimum charge but those who continually exceed and for long periods will face more onerous charges. Exception charges shall apply to all customers even where they have entered the process for increasing the existing supply capacity.

NIE Networks feel the exception charge proposal is appropriate action to remedy the situation of customers exceeding their MIC and potentially putting the network at risk in terms of public safety, creating unacceptable voltage performance which may critically impact on other customer's connected equipment and will also add avoidable costs to new connectees. The escalating factor received support as both a fair and greater deterrent for customers continually exceeding their MIC and will be part of implementation. Communication from NIE Networks with both customers and suppliers was highlighted through consultation responses, and NIE Networks propose customers will be notified of any exceedance each month and advised to reduce their load or to make an application for increased capacity, this is in addition to the two stage engagement with customers before implementation of the proposed changes occur. The application of exception charges will be implemented as a tool used in the process to remedy the situation before the point of threatening to disconnect is reached. We believe that having such a step is in both NIE Networks' and the customer's interest.

NIE Networks has concluded to move forward with the Phased Approach of implementation which received support through the consultation. Further details on the implementation plan can be found in the following section 7. This phased approach will allow for a more focused approach to engagement with customers and suppliers, with smaller numbers of customers at stage 1 and the opportunity for learning before engaging with a larger number of customers in stage 2. NIE Networks propose a high level of engagement and to be open with plans throughout the timeline of implementation.

7. IMPLEMENTATION PLAN

NIE Networks will adopt the two stage implementation proposal, a phased approach. The two stages of the phased approach include:

- Phase 1: MIC charging would be introduced for all EHV and HV customers from 1 October 2021, in the 2021/22 DUoS tariffs. The proposed changes to MIC exception charging would also be introduced for all EHV and HV customers on the same date. The current capacity charging arrangements would be retained for LV customers.

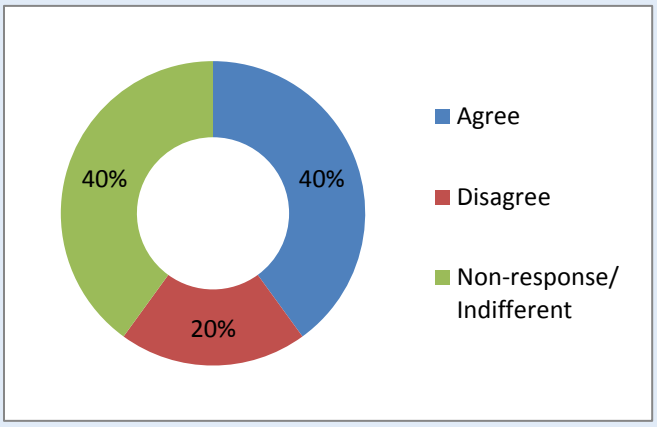
- Phase 2: MIC charging would be introduced for all LV customers with MIC greater than 70kVA from 1 October 2022, in the 2022/23 DUoS tariffs. MIC exception charges would also be introduced for these customers on this date.

NIE Networks has chosen to proceed with the phased approach as this will allow a more focused approach to the engagement with customers and suppliers, with smaller numbers of customers at stage 1 and an opportunity for learning before engaging with a larger number of customers in stage 2. It also allows NIE Networks to better predict the reaction of customers to the changing MIC methodology and therefore reduces the risk of potential volatility in the capacity charge element of future tariffs.

8. APPENDIX 1

Summary of Consultation Report Responses.

Q1 Do you believe that new and existing customers would benefit from releasing underutilised capacity on the distribution network?



Agreeing Respondents: MEUC

Disagreeing Respondents: BHC

Non-Response/Indifferent Respondents: Energia, ESI, Power NI

Points for Consideration

MEUC agreed customers could financially benefit from the release of underutilised capacity, however raised the issue that they would expect customers who made a financial contribution towards network reinforcement when seeking their current supply, would receive financial compensation if voluntarily releasing that capacity for which they had earlier made a cost contribution. This issue was also raised by Power NI.

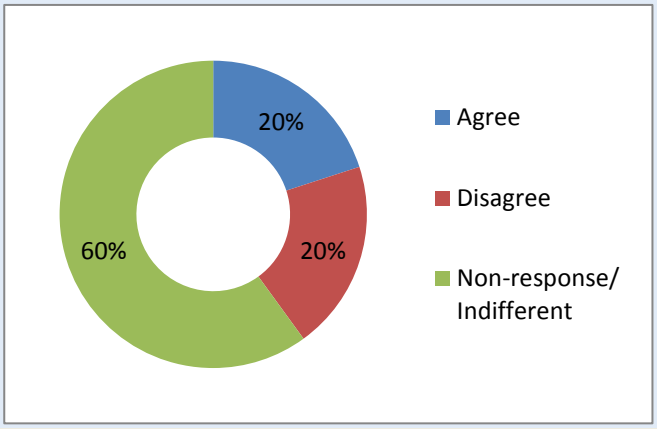
Power NI provided an indifferent response. Power NI recognised the inefficiency of having under-used network capacity and welcomes measures to address such inefficiency. They also noted their disappointment NIE Networks haven't undertaken substantive research into why customers find themselves in this position as this may have provided helpful insight into the root cause of the issue, challenging the assumption of capacity hoarding as suggested.

Power NI warned of the need for communication and the disruption to customers that may be caused. As a supplier Power NI noted that a customer's contractual supply and billing relationship lies with the supplier, and so NIE Networks communication in relation to this change should be in conjunction with the supplier. Also noted within the response was the need for communication and guidance not only for customers, but industry and regulators.

BHC disagreed with the proposal. BHC have invested specifically in the provision of infrastructure to facilitate growth in its own and its customers businesses. They view the proposed methodology as a financial impediment to provision of future capacity using infrastructure already invested in. BHC state that due to the ever changing network of consumers, the electricity network is also ever evolving and releasing what may be viewed as underutilised capacity may have inadvertent consequences for future users and the economy.

Energia and ESI did not provide a response to this question.

Q2 Do you agree with NIE Networks' proposed approach for recovering underused network capacity by moving to a MIC charge as outlined in Section 3.5 of this consultation?



Agreeing Respondents: MEUC

Disagreeing Respondents: BHC

Non-Response/Indifferent Respondents: Energia, ESI, Power NI

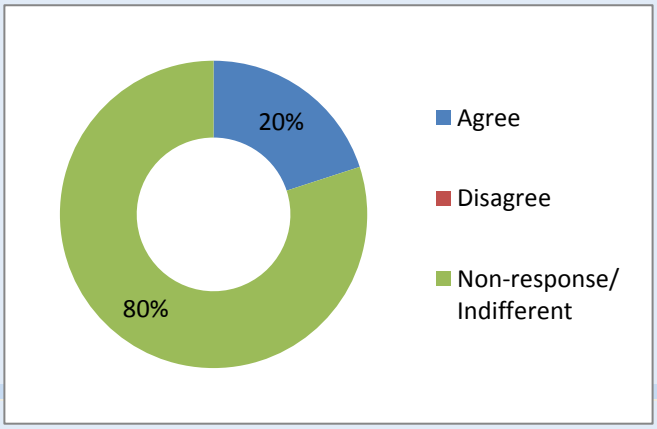
Points for Consideration

MEUC agreed, stating members should pay appropriately for their capacity requirements. MEUC highlighted their recognition that capacity requirement calculations are often carried out by third parties and capacities are often overestimated on the basis of "being safe rather than sorry". Noted this also brings NI in line with GB and ROI, and identical processes would best allow standardisation and the sharing of best practise.

BHC disagree. BHC are the provider of infrastructure to a large section of the regional economy, they considered a different approach would be required to reflect the changing needs of the Port and its stakeholders.

Energia, ESI and Power NI made no comment. Energia noted the report indicated similar charging mechanisms are already in place in GB and ROI.

Q3 Do you believe the proposed two stage engagement process as set out in Section 3.6 and the planned timeline for the introduction of the proposed changes as set out in Section 5, provides affected customers sufficient time and information to understand how the changes will impact their business and to be able to take the appropriate actions?



Agreeing Respondents: MEUC

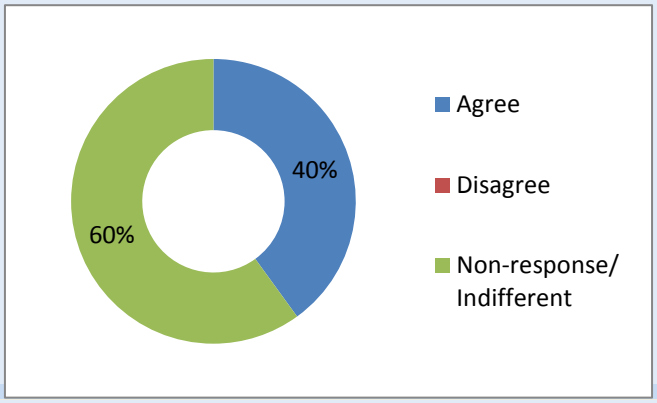
Non-Response/Indifferent Respondents: BHS, Energia, ESI, Power NI

Points for Consideration

MEUC agreed the proposed two stage process should provide sufficient time from an information point of view, however stated whether any changes can be made in that time and the impact on business continuity will differ from business to business. MEUC stated they do not believe a "one solution fits all" approach will be the best way forward, suggesting solutions and timescales may need to be tailored for individual cases.

All other respondents had no comment on the two stage engagement process. BHC did agree that robust market sounding should be carried out prior to the introduction of any methodolgy, however states that the final decision on methodology should be made prior to entering the proposed two stage engagement.

Q4 Do you agree that the application of exception charges to customers who exceed their assigned MIC rather than resorting to potential disconnection, is an acceptable tool to ensure the continued safe operation and security of the distribution network?



Agreeing Respondents: BHC, MEUC

Non-Response/Indifferent Respondents: Energia, ESI, Power NI

Points for Consideration

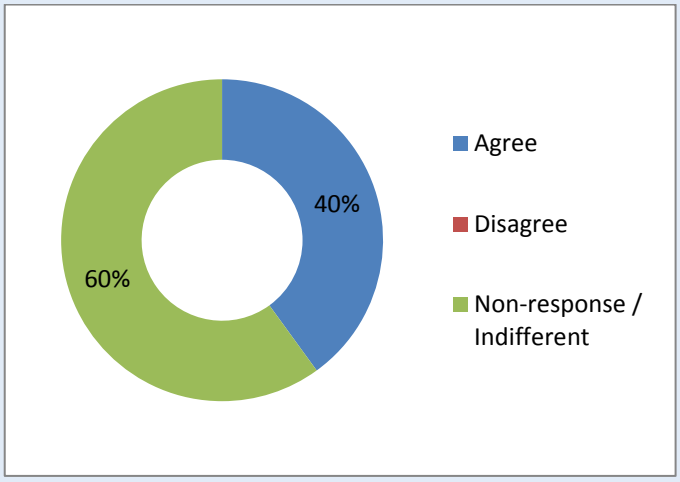
MEUC agree with exception charges, however believe this is only one step in the awareness process. Customers exceeding their MIC also risk business continuity, therefore MEUC believes organisations need to be pro-active in convincing customers of the dangers to business continuity. Dangers arising from excess MIC excursions and possible site disconnection as result of overload and protection device operation.

BHC are in agreement that a phased, consultative approach is required and agree that exception charges are an effective way of regulating exceedance of the agreed MIC. BHC make note that care should be taken to ensure that exception charges do not act as a disincentive to business and economic growth.

Power NI made no comment on exception charges, however made comment that any process should be transparent and evidence based with NIE Networks ensuring that processes and procedures are in place to facilitate the quick and permanent resolution of the issue.

Energia and ESI had no comment.

Q5 - Do you agree with NIE Networks proposed approach of applying an escalator methodology based on frequency and persistence of occurrences rather than a flat rate is a fairer approach for managing customers who exceed their agreed MIC?



Agreeing Respondents: MEUC, BHC

Disagreeing Respondents:

Non-Response/Indifferent Respondents: Energia, ESI, Power NI

Points for Consideration

None of the respondents disagreed with the escalator methodology that was proposed.

MEUC agreed with the methodology and also different charges applying for different degrees of the excess of the MIC. MEUC stated a preference in seeing that the charging method would be based on a percentage of the normal charge. The figures produced in the table appear excessive, however, they noted their awareness that these figures were included as examples only.

BHC also agreed with the escalator methodolgy. It provides an opportunity to alert customers who unintentionally exceed their MIC. BHC propose NIE Networks should be prepared to assist customers and respond rapidly to MIC exceedance and avoidance of penalties where there is no risk to the network.

Energia, ESI and Power NI did not comment on this question.

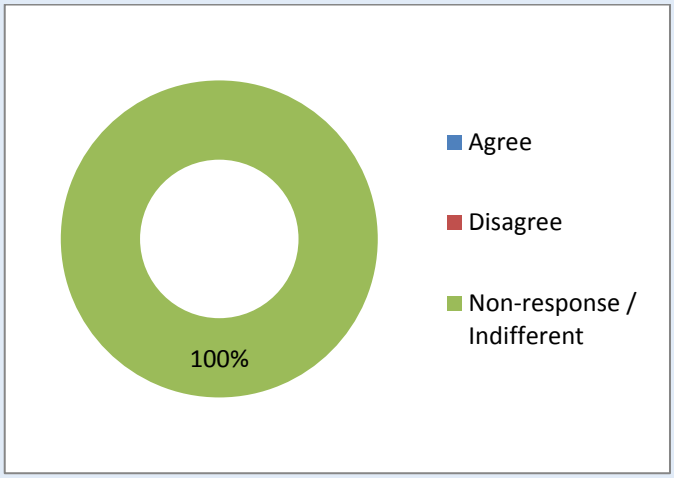
Q6 - At present NIE Networks puts the exception charges on hold if the customer makes an application to NIE Networks for the additional capacity. It is proposed that this will no longer be the case under the changes to MIC exception charges. MIC exception charges will be applied from the first month in which the MIC has been exceeded.

To remove exception charges, customers are required to reduce their peak demand to a level at or below their contracted MIC or alternatively, they should make an application to NIE Networks to increase their MIC to the recorded higher MD and should submit all the relevant information within their application. NIE Networks will assess the application and the outcome will be either:

• If the supply is deemed to be adequate, NIE Networks will issue terms and a revised Connection Agreement for increasing the MIC and the MIC exception charges will cease with the customer's acceptance of terms.

• If it is determined that the supply is not adequate, the application will progress to determine the level of reinforcement works required and their associated costs. MIC exception charges will be applied until the load has been reduced or the terms for the reinforcement work has been accepted by the customer and the associated Connection Agreement and reinforcement works completed.

Do you agree that this process is a fair approach to manage customers whose exceeding of their agreed MIC is putting the network at potential risk?



Agreeing Respondents:

Disagreeing Respondents:

Non-Response/Indifferent Respondents: Energia, ESI, BHC, MEUC, Power NI

Points for Consideration

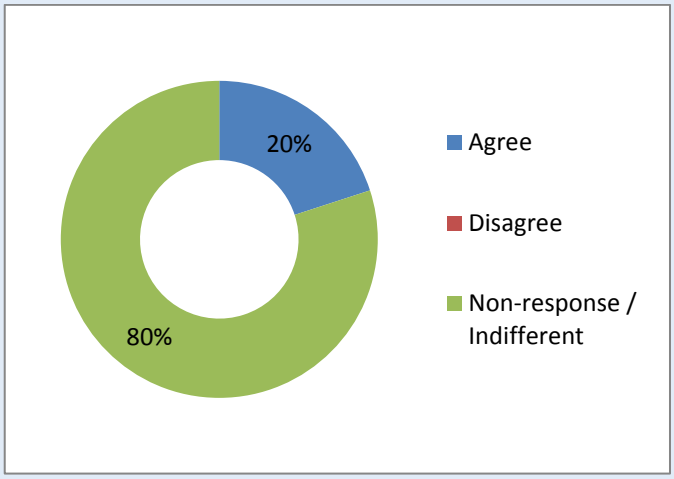
None of the customers agreed nor disagreed with the proposals regarding the exception charges.

BHC provided an indifferent response to the question. BHC proposed a triaging method to analyse customers who may put the network at risk by exceeding MIC and separate those from who may not put the network at risk through exceedance. They suggest these customers should be treated accordingly.

MEUC provided an indifferent response. MEUC stated if customers reduce MIC closer to maximum demand they are more vulnerable to excess charging. MEUC make aware sufficient time must be allowed for such customers to regain agreed levels through discussion/advice. Customers with long history of excess could be charged immediately but again only after verbal and written warnings.

Energia, ESI and Power NI did not comment on the question.

Q7 - What are your views and preference on the proposed options for the timelines to implement MIC charging and the changes to MIC exception charging?



Agreeing Respondents: MEUC

Disagreeing Respondents:

Non-Response/Indifferent Respondents: Energia, ESI, BHC, Power NI

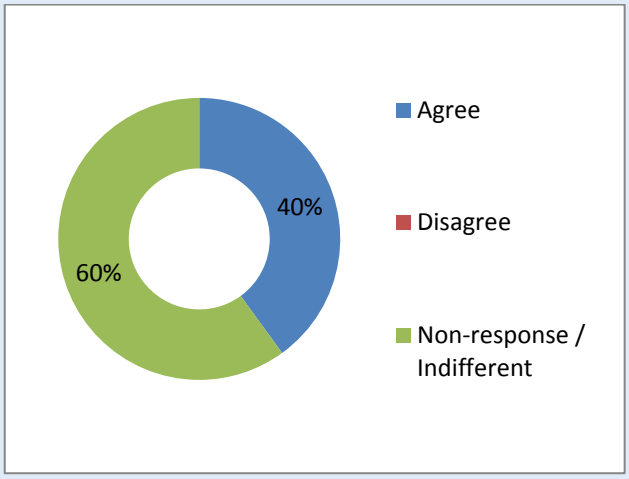
Points for Consideration

No stakeholders disagreed with the proposals.

Energia, ESI, BHC and Power NI did not comment on their views towards the proposed options for the timelines to implement MIC charging and changes to MIC exception charging.

MEUC strongly support proposed options but re-emphasised the need for strong customer interaction from NIE Networks before any penalty application**.**

Q8 - Do you believe that a phased implementation approach would benefit customers more by allowing for a more focused customer engagement and reducing the potential risk of volatility in future capacity charges?



Agreeing Respondents: MEUC, Power NI

Disagreeing Respondents:

Non-Response/Indifferent Respondents: Energia, ESI, BHC

Points for Consideration

BHC provided a response neither in agreement nor disagreement. BHC suggest that a phased approach may assist with the management of the implementation but will not assist with the longer term cycle requirement that BHC have described in their consultation response.

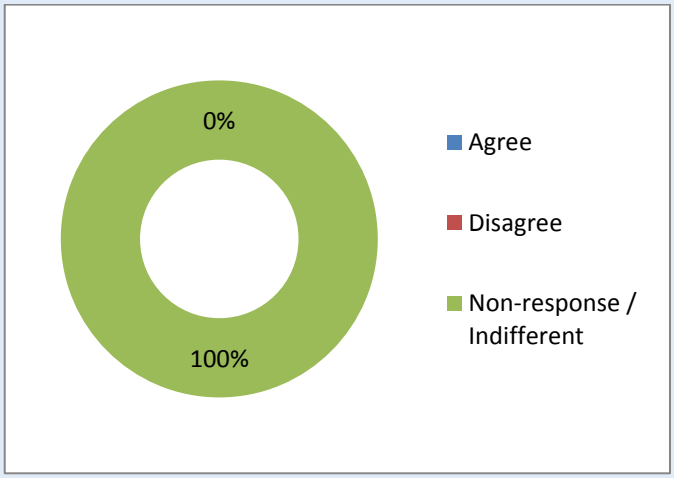
Power NI agree with the phased implementation approach. They encourage NIE Networks to publish the plans for the change and to engage with suppliers.

MEUC agreed with the proposals for the phased approach. They particularly advocate strong customer engagement to keep customers updated with progress.

Energia and ESI did not provide a response to phased implementation approach.

Q9 - Do you have alternative suggestions on how NIE Networks should introduce the changes to MIC charging and application of exception charges, should that be the ultimate recommendation following the outcome of this consultation process? If yes please outline in detail your proposal.

Where stakeholders have a preference for one of the options, please provide full explanation for this preference, or where stakeholders disagree with any of the proposed options, please provide a full explanation.



Agreeing Respondents:

Disagreeing Respondents:

Non-Response/Indifferent Respondents: Energia, ESI, BHC, MEUC, Power NI

Points for Consideration

None of the respondents gave any further views on this questions.