

Background on Competition and Market Opening in the Electricity Sector

Historically most of the electricity in Northern Ireland was supplied by Northern Ireland Electricity plc. EU Directive 96/92/EC and EU Directive 2003/54/EC required the electricity market in member states to be fully opened to competition by July 2007. This opening of the market to competition started in Northern Ireland in 1999 and was to undertaken in stages, starting with the largest electricity users. By July 2005 all non-domestic customers were eligible to switch supplier, and after EU approval for delay from the July 2007 deadline, all domestic customers were eligible by November 2007.

All non-domestic customers may now contract with any electricity supply licence holder who is active in their area of the market. There are currently four active supply companies in the Northern Ireland non-domestic market. These suppliers are Airtricity, Energia, ESBIE and NIE Energy Supply, and their contact details can be found under the Utility Licensees section.

At present, there is still only one supplier in the domestic market - NIE Energy Supply.

Because supply competition is still at a premature stage, NIE Energy Supply's customers pay a regulated price for their electricity. This price is regulated under price control and approved by the Utility Regulator.

However other suppliers are entirely responsible for their own pricing policies and contractual arrangements. The Utility Regulator can only intervene if a supplier has breached one of its licence conditions. Customers may also be able to avail of a "green-tariff" where any electricity supplied has been produced by a renewable source.

Why has the electricity market been opened to competition?

The European Union is seeking to develop a competitive market for electricity within member states, so that customers not only have a choice of supplier but all unnecessary barriers to cross border exchanges of electricity are removed. To this effect the EU published Directive 96/92/EC concerning common rules for the internal market in electricity which was later repealed and replaced by Directive 2003/54/EC. These directives required competition to be introduced into the electricity market.

Northern Ireland met the requirements of these directives by opening its supply market to competition in stages; a threshold was set so that initially only the largest industrial consumers of electricity were eligible to switch supplier. This threshold was progressively lowered, so that by July 2005 all non-domestic customers were eligible and by November 2007 all customers (including domestics) were eligible.

The market was opened in stages in a prudent manner in order to see how market opening would work in practice and to avoid large cost shocks. Electricity markets operate in a complex manner and it is not simply a matter of allowing a number of suppliers to operate and sell to whomever they wish. The systems have to be in place to enable the market to work and the right market conditions need to be present. This is particularly the case in Northern Ireland due to the way in which the industry was privatised.

Generation contracts were priced at a level to make the sale of the generators attractive and this has resulted in high generation costs. Although the Utility Regulator has renegotiated some of these contracts on more favourable conditions they still contain many out of market elements and some contracts do not expire for many years. However the terms of these contracts must still be honoured and hence paid for in some way. The Utility Regulator did not wish to open the market in a way which would mean higher costs to customers on top of already high generation costs.

Ideally market opening should bring higher standards of customer service and lower prices emerging via increased competitive pressures.

History of Competition and Market Opening in Northern Ireland's Electricity Industry

When the electricity industry was restructured in 1992, the existing transmission, distribution and supply businesses formed part of Northern Ireland Electricity (NIE) plc, while the four existing generating stations were sold to private companies.

An important feature of this restructuring was the establishment of the NIE Power Procurement Business (PPB) to carry out two functions. The first was to act as system operator and control the dispatch of power stations and control

the flow of electricity onto the wires. This role has been carried out by an independent system operator, SONI, since 2000.

The second role, as defined by the Supply Competition Code was to purchase electricity from the independently owned generators under the long-term Power Purchase Agreements (PPAs) and sell this electricity to licensed suppliers, including NIE's own supply business, at the regulated price, the Bulk Supply Tariff (BST). These PPAs were put in place prior to privatisation and continue in force until they expire in 2010-2012.

The EU Directive 96/92/EC concerning common rules for the internal market in electricity, which was later repealed and replaced by Directive 2003/54/EC required that the electricity market in member states be fully open to competition by July 2007.

In Northern Ireland, this competition was introduced in stages, with the largest consumers of electricity becoming eligible to switch supplier first. These eligible customers were able to negotiate with Second Tier Suppliers to get their electricity supplied at more favourable terms than those offered by the regulated Public Electricity Supplier, NIE. Under the Supply Competition Code, these Second Tier Suppliers were able to purchase electricity from sources other than PPB to sell to these eligible customers. However, NIE Supply was obliged to purchase from PPB.

Competition continued to be expanded so that by July 2005, all non-domestic (business) consumers were eligible to switch supply and by November 2007 (after seeking approval for delay from the EU) all customers, including domestic, were eligible.

November 2007 also saw the launch of the SEM, an all-island wholesale electricity market, based on the concept of a gross mandatory pool. The purpose of the SEM is to deliver an efficient level of sustainable prices for all customers, for a supply that is reliable and secure in both the short and long-run on an all-island basis.

Because of the SEM, significant changes to the structure of the electricity market in Northern Ireland were required. NIE Supply and PPB were separated and ring-fenced from the rest of NIE to form NIE Energy, while the transmission and distribution business continues to be carried out by NIE plc. SONI, the system operator, will be divested from NIE's parent company, Viridian.

PPB now sells all its contracted generation into the SEM pool and NIE Energy Supply is no longer required to purchase from PPB, purchasing from the pool instead.