Regulated Entitlement Values

2021/22 Tariff Year

About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.

Our vision

To ensure value and sustainability in energy and water.

Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

Abstract

Electricity suppliers in Northern Ireland pay a number of regulated charges which they may in turn recover from their consumers. This information paper details each regulated charge that makes up a portion of electricity bills for both business and domestic consumers. The purpose of this information note is to communicate the changes to the regulated entitlement values for each charge which will take effect from 1 October 2021.

Audience

Electricity suppliers, customers, businesses and consumer groups.

Consumer impact

This paper provides information on each element of the regulated entitlements which make-up a portion of the cost of electricity paid by business and domestic consumers. The reasons for the changes are discussed within the paper.

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1. Introduction

1.1 Electricity suppliers in Northern Ireland pay a number of regulated charges, known as regulated entitlement values, which they may in turn recover from their customers. The Utility Regulator approves network charges and public service obligation (PSO) charges whereas the Single Electricity Market Committee (SEMC) approves SEM charges. In this information note, we refer to the regulated entitlement values for each charge which can be recovered over the next tariff year (1 October 2021 - 30 September 2022).

1.2 Network and PSO charges are collected by: NIE Networks (Northern Ireland Electricity Networks); and by SONI (System Operator Northern Ireland), whereas the SEM charges are collected by SEMO (Single Electricity Market Operator).

1.3 The purpose of this paper is to communicate the changes to the regulated entitlement values for each charge which will take effect from 1 October 2021, together with explanations for these changes.

1.4 NIE Networks, SONI and the SEMO set tariffs to collect over the forthcoming tariff year, based on cost/revenue allocation assumptions and consumption forecasts. These costs are regulated through price controls to ensure the costs are necessary and efficiently incurred to help protect consumers. The relevant tariffs are published on the NIE Networks[1], SONI[2] and SEM website[3] which we have referenced in the footnotes below.

1.5 This paper has been authored and published before outturn costs have been collected or verified for the tariff year 2020/21 (1 October 2020 – 30 September 2021), therefore, the comparisons made below are between two forecasted revenue entitlements. For the sake of simplicity and transparency we have not updated the 2020/21 forecast from last year[4], however, we have accounted for the latest available information to us, in our forecasts for 2021/22.

1.6 In addition, we would add that electricity bills also include other costs, such as: wholesale energy costs; the climate change levy (for businesses only); the carbon reduction commitment; supplier charges; and VAT. The most significant of these other costs is the energy costs, and these will vary greatly between suppliers and customers, largely depending on the timing and extent of hedging contracts.

[1] https://www.nienetworks.co.uk/about-us/regulation/network-charges
[2] http://www.soni.ltd.uk/library/
[3] https://www.semcommittee.com/publications
[4] 2020-09-10 Regulated Entitlement Values.pdf (uregni.gov.uk)

1.7 An annex has been added to this year's report, which shows a five-year history for easy reference over the medium term, and readers may find this helpful in conjunction with previous year's narrative. A link to previous reports has also been provided.

2. Network and system support charges

Transmission & Distribution (TUoS/DUoS) charges

2.1 The use of system charges are derived from the price controls put in place for NIE Networks, with the RP6 price control being the most relevant for this tariff year. The tariffs reflect our best estimate for the 2021/22 tariff year by utilising the approach that the entitlement for any tariff year (October - September) should be 50% of the entitlement for the two financial years (April - March) which it spans.

TUoS

2.2 Underlying transmission revenue entitlement has increased between tariff years from £44.5m in 2020/21 to £46.3m for 2021/22. These figures are based on the best available forecasts of expenditure levels provided by NIE Networks and price control allowances set within RP6, updated with both actual and forecast inflation.

2.3 After allowing for K factor movements, which accounts for any true up of revenues in previous year's once actual values become known, approved TUoS charges are increasing from £43.6m in 2020/21 to £44.2 million for 2021/22.

2.4 The net effect is that the TUoS revenue entitlement increased by 1.4% for 2021/22.

2.5 NIE Networks pass on all TUoS charges to SONI. Revenue is then recovered via suppliers (STUoS) and generators (GTUoS) on the basis of a 75:25 split respectively.

2.6 STUoS has increased from the 2020/21 revenue requirement of £34.3 million to £35.4 million. This represents a nominal rise of 3.3% for 2021/22. The revenue increase follows the move in the total TUoS amount given that STUoS is calculated based on 75% of overall TUoS. For 2021/22 there is also a K-factor impact of c. £2.2 million influencing upward costs.

DUoS

2.7 Underlying distribution revenue entitlement has decreased from £216.6m in 2020/21 to £216.2m for 2021/22. Similar to TUoS, these figures are based on the best available forecast of expenditure levels provided by NIE Networks and price control allowances set within RP6, updated with both actual and forecast inflation.

2.8 After allowing for K factor movements, which accounts for any true up of

revenues in previous year's once actual values become known, approved DUoS charges are decreasing from £219.1m in 2020/21 to £203.3 million for 2021/22. Volumes forecasts used for 2020/21 tariffs had been based on the assumption that Covid-19 would reduce overall consumption levels. Actual volumes proved to hold up much better than assumed, leading to a large over recovery feeding into 2021/22 tariffs.

2.9 The net effect is that the DUoS revenue entitlement decreased by 7.2% for 2021/22.

System Support Services (SSS) charges

2.10 These regulated charges cover the cost of SONI and the ancillary services required to operate the transmission system safely and reliably. Revenue is apportioned across each kW of electricity consumed.

2.11 SSS revenue has increased (29.3% in nominal terms) from the 2020/21 value of £53.6 million to £69.4 million in 2021/22. The underlying SSS revenue increase is actually larger at £73.4 million, but a proportion of internal costs (£4.1 million) has been allocated to G-TUoS in line with our allocation decision to adopt the EirGrid approach in RoI.

2.12 There are a number of reasons for this revenue increase including:

- K-factor movements;
- Ancillary service costs;
- Price control allowances.

2.13 The largest impact is due to a substantial K-factor over-recovery of £19.1 million being handed back to customers in 2020/21. The over-recovery occurred due to forecast Local Reserve Service Agreement (LRSA) costs not materialising. By contrast, the over-recovery for 2021/22 is much less material at £4.6 million. When the K-factor impact is excluded, the underlying revenue increase is much less material.

2.14 In terms of other cost increases, ancillary service forecasts produced by SONI have increased by £3.2 million to accommodate significant growth in the connection of renewable generation and higher levels of non-synchronous generation. This tariff year also includes higher revenue allowances as a consequence of the 2020-25 price control decisions.

2.15 It is worth noting that the SSS charge (in p/kWh) has actually increased by a lower percentage than the regulated entitlement. Whilst revenue has risen by 29.3%, SSS tariffs have increased nominally by 26.7% from 0.777 p/kWh to 0.984 p/kWh. This is due to the fact that SONI demand forecasts have

risen by 2.2% since the previous year forecast.

Collection Agency Income Requirement (CAIR)

2.16 Moyle's transmission licence permits them to raise revenues from sales of capacity on the Moyle interconnector and to recover the balance of its revenue requirements from payments received from SONI under the Collection Agency Agreement.

2.17 The Collection Agency Income Requirement ($CAIRt$) which SONI collect from suppliers and pay to Moyle Interconnector Limited is apportioned across the predicted units transmitted.

2.18 For 2021/22, Moyle has not requested any income to be recovered from customers. As a consequence, a nil tariff will be applied for this particular element of costs.

Overall Network and system support charges

2.19 Table 1 below shows that the maximum amount recoverable for network and system support costs charged to suppliers between 2020/21 and 2021/22. Network and system support charges are estimated to be 26% of the final electricity bill.

2.20 The precise impact on individual customers will depend on various factors including: the consumption profile; consumption quantity; and historical consumption. Customers should refer to company tariff tables. Hyperlinks have been provided in Section 1 of this paper.

Entitlement	**2020/21**	**2021/22**	**Change**
	£m	**£m**	**%**
Supplier Transmission charges (STUoS)	34.3	35.4	3.3
Distribution charges (DUoS)	219.1	203.3	-7.2
Support charges (SSS)	53.6	69.4	29.3
CAIR	-3.5	0.0	-100.0
Total	**303.6**	**308.0**	**1.5**

Table 1 : Network Charges

3. Public Service Obligation (PSO) charge

Landbank

3.1 NIE Land Bank business was established to protect the land surrounding existing power stations for future electricity generation development. The Land Bank sites were vested and the NIE Land Bank business currently manages these sites in accordance with Condition 23 of NIE Network's Licence and directions issued by the Utility Regulator.

3.2 Landbank costs include ongoing associated works at Belfast West and Kilroot including the renewal of leases. This has resulted in a relatively small positive revenue requirement.

Legacy generation costs

3.3 The Power Procurement Business (PPB) has power purchase agreements with the power station owners in Northern Ireland. These contracts were put in place with privatisation of the industry back in 1992. PPB purchase power under the terms of these contracts and then sells this power in the SEM. Any profit or loss forms part of the levy on all customers in Northern Ireland via the PSO.

3.4 The PPB and the associated generation contracts are forecast to save customers £23.3 million in the 2021/22[5] tariff year. This compares to a net saving of £4.9 million forecast for the 2020/21 tariff year.

Sustainable Energy Programme (NISEP) costs

3.5 A levy is imposed on all demand to fund the Northern Ireland Sustainable Energy Programme (NISEP). The objective of this programme is to promote energy efficiency with particular regard to vulnerable electricity customers. Costs for 2021/22 have been updated to reflect the latest forecast expenditure and have decreased by £0.4m to £8.9m from £9.3m in 2020/21. This is due to a true up of expenditure across financial years, which ensures available funding is spent on a cumulative basis.

[5] Please note that, similar to DUoS and TUoS charges, we have changed our approach to calculating the entitlement for the tariff year, such that, the entitlement for any tariff year (October - September) is 50% of the entitlement for the two financial years (April - March) which it spans.

Overall PSO charges

3.6 To summarise: Table 2 below shows that the maximum amount recoverable for PSO will change from a £5m rebate to a rebate of £12.7m for 2021/22.

	2020/21	2021/22	Change
	£m	**£m**	**£m**
Landbank	0.2	0.4	0.2
Legacy generation	-4.9	-23.3	-18.4
NISEP	9.3	8.9	-0.4
K factor	-9.6	1.3	10.9
Total	**-5.0**	**-12.7**	**-7.7**

Table 2 : PSO charge

4. Charges regulated by the SEM Committee

4.1 The Single Electricity Market (SEM) is the wholesale electricity market for the island of Ireland and is regulated by the SEM Committee. The SEM consists of a number of electricity trading markets and is administered by SEMOpx (day-ahead and intraday markets) and SEMO (balancing market).

4.2 New market arrangements for the SEM were introduced on 1 October 2018 improving efficiency and facilitating effective competition in the market.

4.3 Since the new arrangements were introduced they have delivered significant benefits, including making more efficient use of the interconnectors that connect the SEM with the GB market; delivering a market that reflects the underlying cost of generation and delivering increased competition. More detail on the trends and performance of the SEM is available on the SEM Committee website[6].

4.4 In addition to regulating the SEM, the SEM Committee also oversees a number of all-island electricity market tariffs, including charges for generation capacity, the operation of the market (for SEMO and SEMOpx) and market imperfections (for constraints). Details of the movements in the maximum amount recoverable for these SEM charges on an all-island basis are set out in Table 3 below.

Capacity charges

4.5 The CRM is designed to secure sufficient generation capacity through a competitive auctions process to aid security of supply. The auction for 2021-22 cleared at a cost of €358.8m and the K-factor adjustment is included on top of this auction cost. The K-factor amount is €13.9m, this is an adjustment relating to the under recovery of Supplier Capacity Charges in previous years. The sum of these two values forms the basis for Supplier Capacity Charges in the upcoming tariff year.

Imperfection charges

4.6 Imperfections charges are mainly the costs associated with constraints on the all-island transmission network. Constraints are caused by network bottlenecks (such as the North-South interconnector, which is one of the most significant). These constraints result in the system operators (SONI and EirGrid) taking action to 'balance' the system in order to ensure stability of the electricity system. These actions are a normal and necessary part of

[6] https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-031%20MMU%20Quarterly%20Report%20Q1%202020.pdf

electricity markets in other jurisdictions but are particularly important in the SEM, which is a small and highly constrained electricity system that has a high level of renewable generation.

4.7 The imperfection costs for 2021/22 have changed for a number of reasons, including a significant increase in forecast fuel prices. Drivers which mitigated this impact, include increased battery provision, a less onerous forecast of generator outages and a reduction in forecast transmission outages. Further detail on the breakdown of imperfections costs available from the SEM Committee website[7].

4.8 For 2021/22, the imperfections charge is €330.8 million compared to €301.1 million for 2020/21. The SEM Committee will continue to scrutinise the core drivers of these costs.

Market Operator charge

4.9 SEMO incurs operational costs while carrying out its balancing market functions and recovers these costs, together with capital related costs including a rate of return, through Market Operator tariffs and fees, which are levied on market participants. To facilitate this recovery of costs, the Market Operator submits proposals on its allowed revenue and the charges required to recover this revenue to the Regulatory Authorities.

4.10 The 2021-24 SEMO Price Control covers the period from 1 October 2021 to 30 September 2024. The decision has been approved with an entitlement for 2021/22 of €.18.1 million for the upcoming tariff year. This reflects increased operational expenditure allowances, depreciation and return estimates and remuneration for a collection agent margin and the Parent Company Guarantee.

4.11 SEMO has submitted its Market Operator revenue requirement for tariff year 2021/22 which has been approved by the Regulatory Authorities. The revenue requirement specific to 2021/22 is €18.1m.

4.12 As the revised SEM arrangements went live in October 2018 there are two K-factors applicable for the 2019/20 tariff year. A legacy SEM K-factor (representing the final months of the legal SEM resettlement and decommissioning period) for an under recovery of €0.8m and a new SEM K-factor for an under recovery of €1.8m are expected to be provided for.

4.13 SEMO will therefore receive a revenue for 1st October 2021 until 30 September 2021 of €20.7m. This is reflected in the SEMO charging

[7] https://www.semcommittee.com/sites/semc/files/media-files/Imperfections%20Charge%202021_22%20and%20Reforecast%20Report%202019_20.pdf

statement for 2021/22 published by SEMO on 6 September 2021[8].

SEMOpx charge

4.14 SEMOpx is the designated Nominated Electricity Market Operator (NEMO) for the all-island market and offers its trading facilities via power exchanges. This means SEMOpx provides the only route to access the day ahead and intra-day markets. A price control mechanism currently exists for SEMOpx to allow for the recovery of operational costs together with capital related costs including a rate of return. To facilitate this recovery of costs, SEMOpx submits proposals on its allowed revenue and the charges required to recover this revenue to the Regulatory Authorities (RAs).

4.15 The 2019-22 SEMOpx Price Control covers the period 3 October 2019 to 2 October 2022[9]. There is a total entitlement under this Price Control of €3.9 million for the upcoming tariff year.

4.16 SEMOpx has submitted its revenue requirement for tariff year 2021/22 which has been approved by the Regulatory Authorities[10]. This revenue requirement of €3.9 million includes the price control allowance of €4.2 million and a K-factor over recovery reduction of €0.3 million for the 2019/20 tariff year.

4.17 SEMOpx will therefore receive a revenue for 1st October 2021 until 30 September 2022 of €3.9 million.

Residual Error Volume

4.18 Residual Error Volume Price relates to differences between actual and metered volumes, that can swing in both positive and negative directions.

4.19 This error volume can occur due to a number of reasons including; differences between actual consumption and profiled consumption of non-interval metered customers, and differences between loss-adjustment factors and actual losses on the transmission and distribution systems.

4.20 The total Residual Error Volume amount for 2021/22 is estimated at €24 million. Taking account of a K-factor over recovery of €11 million the total cost for 2021/22 is €13 million.

[8] https://www.sem-o.com/documents/general-publications/2021-2022-SEMO-Charging-Statement.pdf
[9] https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-007%20SEMOpx%20Price%20Control%20Decision%20Paper.pdf
[10] https://www.semcommittee.com/publications/sem-21-050-semopx-revenue-requirement-and-k-factor-information-paper

Overall SEM charges

4.21 Table 3 below shows the amount recoverable under some of the main SEM charges in 2021/22. The amount has increased by 3%:

	2020/21 €m	2021/22 €m	Change %
Capacity	370.3	372.7	-3.1
Imperfections charge	301.1	330.8	9.9
Market Operator charge	16.5	20.7	25.5
SEMOpx charge	3.1	3.9	25.8
Residual Error Volume	28	13	-53.6
Total	**719**	**741.1**	**3**

Table 3 : Main charges regulated by the SEM Committee

ANNEX – Five year history tables.

The tables below show the charges over five years for ease of reference. The narrative for the five years is available in the previous years Regulated Entitlement Values Information Note on the Utility Regulator website.

Network and system support charges

Entitlement	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Supplier TUoS	28.3	33.1	34.1	34.3	35.4
DUoS	194.0	199.6	214.4	219.1	203.3
Support charges (SSS)	48.2	81.7	55.9	53.6	69.4
CAIRt	12.5	0.0	0.0	-3.5	0.0
Total	**283**	**314.3**	**304.4**	**303.6**	**308.0**

All prices in nominal terms

PSO

Entitlement	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Landbank	-0.2	0.1	0.1	0.2	0.4
Legacy generation	-5.4	-3.4	-10.1	-4.9	-23.3
NISEP	8.4	8.5	8.5	9.3	8.9
K factor	2.5	-4.1	-8.7	-9.6	1.3
Total	**5.3**	**1.0**	**-10.2**	**-5.0**	**-12.7**

All prices in nominal terms

SEM

Entitlement[11]	2017/18 €m	2018/19 €m	2019/20 €m	2020/21 €m	2021/22 €m
Capacity	537.0	333.0	344.9	370.3	372.7
Imperfections charge	173.0	183.8	355.8	301.1	330.8
Market Operator charge	10.3	18.4	14.0	16.5	20.7
SEMOpx charge	0.0	0.0	3.7	3.1	3.9
Residual Error Volume[12]	0.0	0.0	0.0	28	13.0
Total	**720.3**	**535.2**	**718.3**	**719**	**741.1**

All prices in nominal terms

[11] Go-Live of revised SEM arrangements took place in October 2018. This table therefore provides information about both pre- and post- Go-Live.
[12] In legacy SEM, a residual error volume charge was incurred on a real-time basis. However, information is not available for this period, hence values appear as zero.