



# Conclusion of the Utility Regulator's Review of the Power NI Ltd Maximum Average Price

Effective 1 July 2023



## 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

Protecting consumers is at the heart of the Utility Regulator's (UR) role. Ensuring that domestic customers pay a fair price for electricity from the price regulated supplier Power NI is a core part of our work.

We review and approve the Power NI tariff to ensure that the price consumers pay fairly reflects the cost of supplying that electricity to their homes.

Following a fall in the wholesale price of energy, we commenced a review of the Power NI tariff. This review is the fourth that has occurred alongside the UK Government's Energy Price Guarantee Scheme (EPG) which applies a discount to the Power NI unit rate. Customers pay the unit rate calculated after the discount has been applied. However, from 1 July 2023, the discount will reduce to zero.

## Audience

Consumers and consumer groups; industry; political representatives, stakeholders and statutory bodies.

## Consumer impact

Domestic customers of Power NI will see a change to their tariff rates from 01 July 2023. The underlying Power NI standard tariff rates will decrease by 7.1%. However, the Energy Price Guarantee (EPG) discount rate has now been reduced to zero. This reduction more than offsets the reduction to the Power NI underlying tariff. The end result is an increase of 5.1% to the actual price that Power NI customers will pay.

# Contents page

<b>1.</b>	<b>Approval by the Utility Regulator of the Power NI Ltd Maximum Average Charge per Unit Supplied.....</b>	<b>3</b>
	Summary .....	3
	Background .....	4
<b>2.</b>	<b>Elements of the Maximum Average Charge.....</b>	<b>5</b>
	Levies and Use of System Charges .....	6
	Wholesale Energy Cost and Over / Under recovery .....	6
	Supplier charge .....	7
	NIRO costs .....	8
	Why are Power NI's underlying tariffs decreasing? .....	8
	Wholesale Energy Cost and Power NI Under recovery element .....	8
	Breakdown of Tariff .....	9
	Comparison with GB.....	10
	Outcome .....	11

# 1. Approval by the Utility Regulator of the Power NI Ltd Maximum Average Charge per Unit Supplied

## Summary

- 1.1 In April 2023, the Utility Regulator (UR), in consultation with Power NI, DfE and the Consumer Council, began a review of the Power NI maximum average tariff for domestic customers. The current maximum average price has been effective from 1 April 2023. Following a decrease in wholesale energy costs, this review was initiated to establish the new maximum average charge to become effective from 1 July 2023.
- 1.2 Since 1 April 2023, the underlying price for customers on the Standard Home Energy tariff has been 32.51 p/kWh (ex VAT). Following review, a decrease of 2.3 p/kWh was determined to reflect falling wholesale costs, resulting in a tariff of 30.21 p/kWh (ex VAT).
- 1.3 However, the UK government have announced the removal of discount rates provided to all domestic consumers through the Energy Price Guarantee scheme ('EPG')<sup>1</sup> for the period 1 July 2023 to 30 September 2023. The EPG discount will be reducing from 3.77 p/kWh (ex VAT) to 0.00 p/kWh (ex VAT), effective from 1 July 2023. The removal of this discount has resulted in an upward pressure on Power NI tariffs.
- 1.4 The current discounted rate Power NI customers pay on the Standard Home Energy tariff is 28.74 p/kWh (ex VAT). However, due to the removal of the EPG discount, the new rate Power NI customers will pay, as of 1 July 2023, will be 30.21p/kWh (ex VAT). This equates to an increase of 5.1%.
- 1.5 Table 1 shows the changes to unit rates (ex VAT) payable by Power NI customers since April 2023.

**Table 1 – Unit rate change (ex VAT)**

Rate (ex VAT)	p/kWh
Existing rate (1 April 2023)	32.51
Required decrease	-2.30
EPG discount	0.00
<b>New rate (1 July 2023)</b>	<b>30.21</b>

<sup>1</sup> <https://www.gov.uk/government/publications/energy-bills-support/energy-bills-support-factsheet-8-september-2022>

- 1.6 Table 2 shows the annual bill (including VAT) payable by Power NI customers from 1 July 2023 onwards.

**Table 2 – Power NI domestic standard tariff (based on 3,200 kWh annual consumption)**

	<b>1 July 2023</b>
Tariff Rate (p / kWh) without EPG Discount	31.7205
Supplier Annual Bill (£ / year) without EPG Discount	£1,015
EPG Discount (p / kWh)	0.00
Effective Annual Bill (£ / year)	£1,015

- 1.7 We scrutinised Power NI’s tariff submission to ensure tariffs are kept as low as possible and their submissions reflect only the actual and efficient costs they have incurred. Through our price control, we constrain how much the company is allowed to charge for the services they provide. Through this scrutiny, we ensure that the maximum average charge per unit is not more than the sum of the input costs allowed in the Power NI price control formula.
- 1.8 Our tariff review process is carried out in collaboration with the Department for the Economy and Consumer Council for Northern Ireland.
- 1.9 The tariff will be kept under ongoing review with any potential savings passed on to consumers as quickly as possible. A tariff review would be initiated if changes in actual input costs (for example wholesale or network costs) created a significant difference between Power NI actual and forecast costs and revenues. The tariff would then need to be adjusted upwards or downwards to align costs and revenues.

## **Background**

- 1.10 The domestic electricity supply market has been fully open to competition since 1 November 2007, and since June 2010 a number of suppliers have entered the domestic market. There are now five active suppliers in the domestic market (including Power NI). However, whilst facing competition from other suppliers, Power NI remains dominant in this sector of the market.
- 1.11 Under the terms of Power NI’s licence to supply electricity, we ensure the maximum amount that Power NI can charge for electricity to domestic customers reflects the actual cost of supplying electricity to homes and businesses and is not more than the price control allows.

1.12 The details of the operation of Power NI's supply price control are set out in its Licence. At present, Power NI's maximum allowed unit price of electricity ( $MS_t$ ) for customers is made up of a number of components:

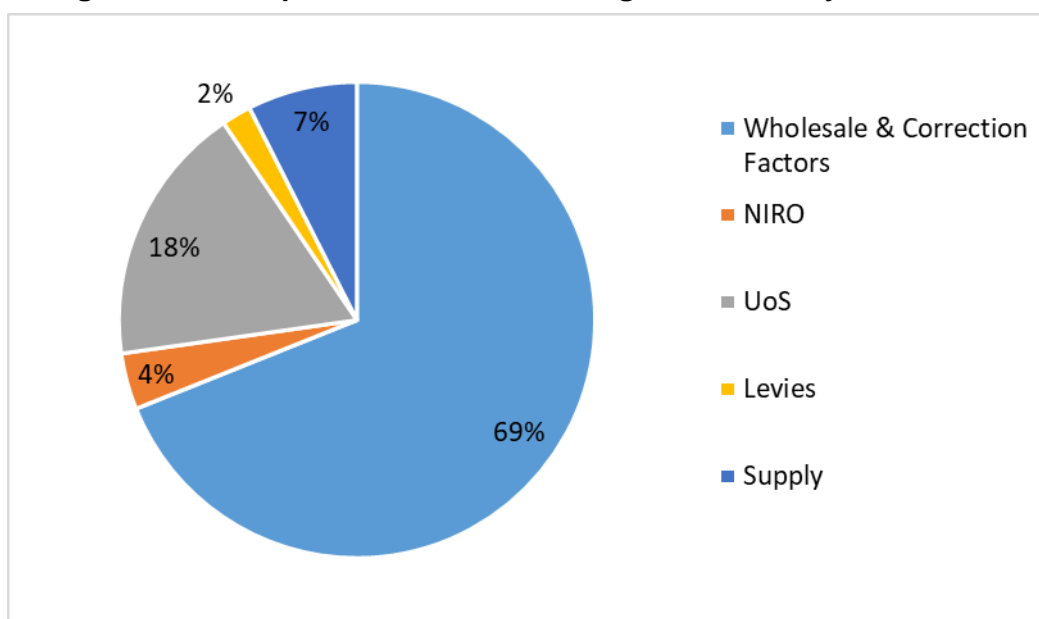
$$MS_t = G_t + U_t + S_t + KS_t + (J_t - D_t) + E_t$$

## 2. Elements of the Maximum Average Charge

2.1 We set a price control that determines allowances for Power NI's operating costs and profit margin. Any other operating costs that are passed through the tariff (which are not allowed for in the price control, e.g., licence fees) must be approved by the UR. The aggregate of the price control allowances and pass through costs are termed the supplier charge (see Figure 1 below).

2.2 Power NI retail tariffs (derived from the maximum average charge) for this upcoming year are made up of a number of components (including the supplier charge discussed above):

Figure 1 - Makeup of the maximum average tariff – 1 July 2023



These elements are further discussed in the sections below.

## **Levies and Use of System Charges**

2.3 Several of the final tariff components are common across all suppliers and the final customer will usually pay these regardless of who their supplier is. These components are all subject to regulatory review and approval:

- Levies – System Support Services (SSS), Public Service Obligation (PSO); and
- Use of System charges (UoS) – these are the costs of transmission and distribution of electricity through the NIE Ltd network to homes and business.

2.4 These costs are regulated because they are levied to recover the costs of those parts of the electricity system which are natural monopolies. Independent suppliers are free to enter the market and purchase power. They will usually add on the charges outlined above to their energy costs before setting the final price to sell to customers. This is because they are required to pay these charges in order to safely and securely transport the power to the customer.

2.5 For the purpose of setting a July 2023 tariff, the published Levy and UoS rates have been used where available and, where they haven't yet been published, forecast estimates for these network components have been used to derive the Power NI revenue requirement for them over the next 24 months. Generally speaking, an increase for RPI has been assumed for these elements in the absence of having the actual published tariff rates that will apply from July 2023 onwards. It is important to note that Power NI's tariffs may be adjusted at a future tariff review depending on the actual out-turn costs, the forecasts used at this time have been used for initial tariff setting purposes.

## **Wholesale Energy Cost and Over / Under recovery**

2.6 The all-island Single Electricity Market (SEM) is both a competitive and regulated wholesale energy market on the island of Ireland. It is where electricity generators and suppliers trade the power used by homes and businesses across the island of Ireland. The SEM comprises a number of markets each spanning different trading timeframes which allow increasing levels of competition as well ensuring the supply of power matches demand. These timeframes include:

- Day Ahead Market (the largest market by volume and value);
- Intra Day Market (running up to an hour before the delivery of power);



- Balancing Market (difference between the suppliers demand and what they have already purchased); and
- Forwards Market (provides an opportunity for hedging).

2.7 Hedges effectively mean that the supplier is purchasing power on a forward basis, at a fixed price, based on forecast market prices (plus a premium). We approve the Power NI hedging methodology, and we also approve the forecast of the total of Power NI wholesale costs for their estimated demand for the tariff period. Because the wholesale energy component of final tariffs is both large and volatile, over or under recoveries of revenues in any tariff period are generally caused by wholesale energy costs out-turning lower or higher, than was forecast at the time of tariff setting. Over recoveries that occur in any given tariff period are handed back to customers in the subsequent tariff period. Under recoveries are added to the total cost forecast of the subsequent tariff period.

2.8 Wholesale costs also include:

- Capacity Costs – these are the costs suppliers pay to help ensure there is sufficient generation available within the system in order to meet peak demand. Generators who are successful in a competitive capacity auction, receive a regular capacity payment. This payment assists with funding their generation capacity however capacity providers are also required to refund consumers for any energy prices which rise above a set strike price for each capacity auction.
- Imperfection charges - these 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 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.

## **Supplier charge**

2.9 The supplier charge is made up of the efficient costs of Power NI’s supply business. These costs are assessed and collected through the application of the Power NI Supply Price Control and any other costs approved on a pass-through basis (after thorough regulatory scrutiny). The allowance set in the price control is for Power NI operating costs (e.g. salaries, IT systems, rent

and rates, legal fees, bad debt costs, keypad meter transaction costs and a target profit margin of 2.2% of forecast turnover). Other costs which are unknown but treated as “passthrough” as they are unavoidable (e.g., licence fees, certain IT project costs), are allowed and these also go into the overall supplier charge.

## **NIRO costs**

- 2.10 The Northern Ireland Renewables Obligation (NIRO), is an environmental scheme designed to encourage the development of renewable electricity in Northern Ireland. Although now closed to new renewable electricity generation, consumers continue to pay for the cost of projects accredited through the scheme. Ofgem audits the cost of the NIRO on behalf of the UR.

## **Why are Power NI’s underlying tariffs decreasing?**

- 2.11 The maximum average charge as calculated by the tariff formula will decrease by c.7.1% (as shown by the p/kWh required decrease in section 1.5), but the actual tariff charged to domestic customers will increase by 5.1% from 1 July 2023. This is due to the removal of the EPG discount that has been funded by the UK Government.
- 2.12 Table 2 below shows the movement in the final price customers will pay, showing a final increase of 5.1% from 1 July 2023. The reduction in Power NI’s underlying tariff is being offset by the removal of the EPG discount, from 3.77p/kWh (ex VAT) to 0.00 p/kWh (ex VAT).

**Table 2 - Historic Final Price (after EPG discount applied to tariff) (ex. VAT)**

<b>Effective from date</b>	<b>1 April 2023</b>	<b>1 July 2023</b>
Approved Final Tariff (p/kWh)	28.74	30.21
% Change	+14%	+5%

## **Wholesale Energy Cost and Power NI Under recovery element**

- 2.13 Power NI have seen a reduction in wholesale energy costs since last setting the tariff in April 2023.
- 2.14 Until recently, there has been strong upward price pressure in international fuel markets with both gas and carbon prices in particular, increasing

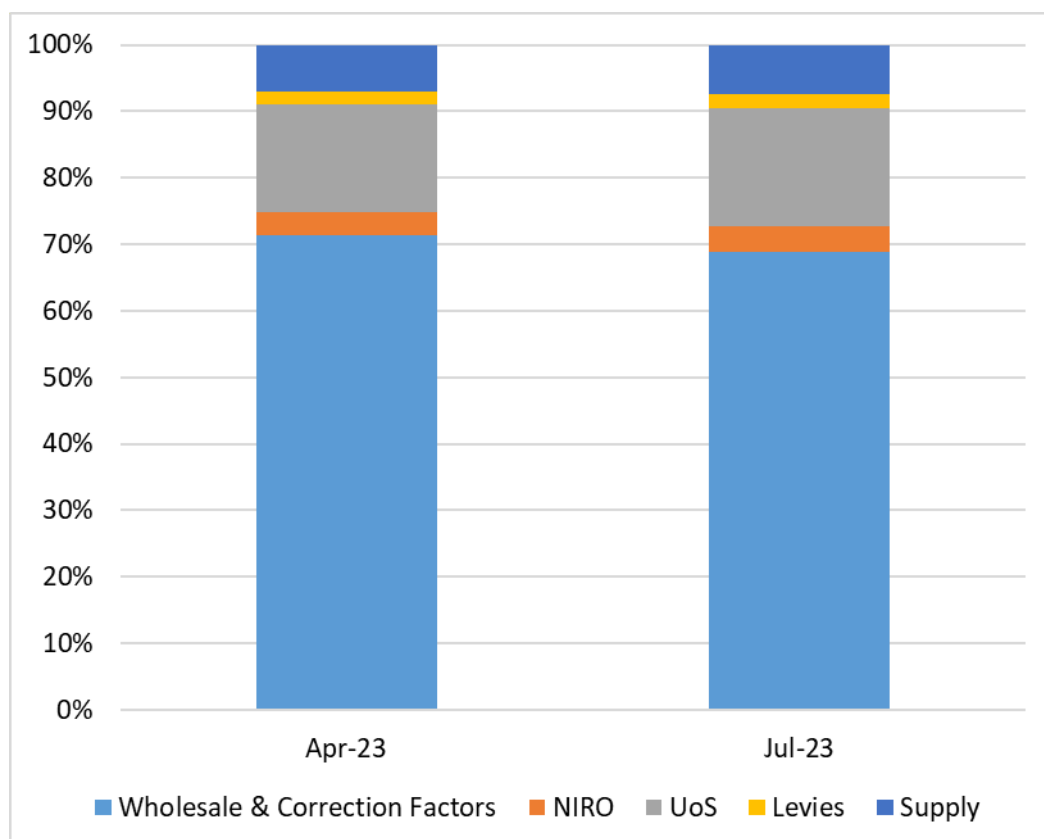
significantly. This has increased the cost of purchasing electricity generated in the SEM. Although wholesale energy costs have softened in the past few months, they remain over double the price of historic norms.

- 2.15 This persistent upward price pressure in both the spot and forward markets continue to result in higher energy prices for all consumers.
- 2.16 In response to these higher energy prices, the UK government introduced the EPG scheme in Northern Ireland on 1 November 2022 (backdating bills to 1 October 2022). This scheme has reduced the unit cost of electricity in all domestic electricity bills in Northern Ireland. With the softening of wholesale energy prices, the support provided through this scheme has been removed. The scheme will however remain in place as a 'safety net' until March 2024 should energy prices increase significantly during this period.

### Breakdown of Tariff

- 2.17 The graph shown in Figure 2 below compares the breakdown of the July 2023 tariff with the breakdown of the previous tariff set at April 2023. The price of wholesale energy remains the most significant element of the final consumer bill.

**Figure 2 – Breakdown of July 2023 tariff costs compared with a breakdown of the previous tariff costs.**



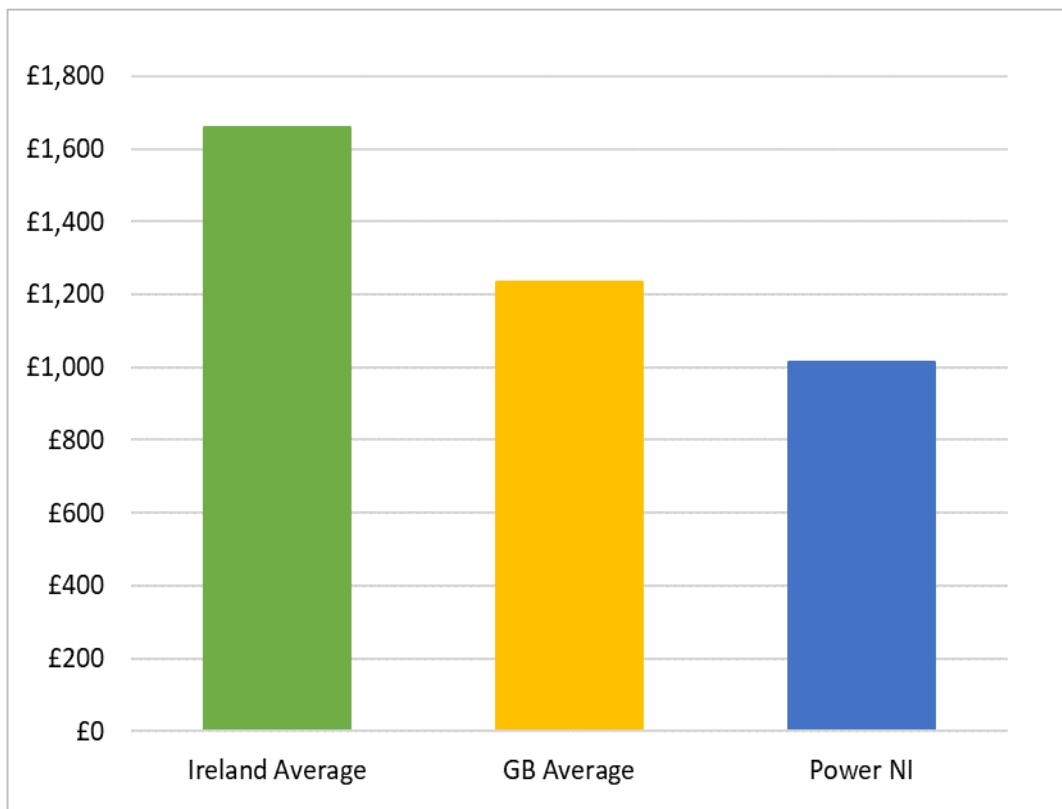
2.18 The average annual bill<sup>2</sup> from 1 July 2023 will be £1,015 inclusive of VAT. As stated previously the government discount is now zero. This compares with a previous annual bill (based on the tariff set at April 2023) of £966. On this basis, a typical customer will pay £49 (5.1%) more than the effective (after EPG discount) April 2023 tariff.

### Comparison with GB

2.19 Figure 3 below shows the average annual bill for a Power NI domestic credit customer compared to the Ireland average annual bill and the GB Electricity Price Cap. This comparison is based on the latest available information.

2.20 Figure 3 illustrates that the Power NI tariff for an average domestic credit customer will be circa 18% cheaper than the GB Electricity Price Cap which equates to c.£217. The Power NI tariff will be c.39% cheaper than the current annual bill in Ireland which equates to a difference of c.£645.

**Figure 3 - Comparison of average annual bill in GB and Ireland with Power NI (based on estimated usage 3,200 kWh p/a including VAT as of 1 July 2023.**



*NB 3,200 kWh represents typical average consumption which has been used in previous years for tariff comparison.*

<sup>2</sup> The average annual bill amounts have been calculated based on the standard domestic tariff set at each tariff review (including VAT) and are based on an average annual consumption of 3,200 kWh as has been used in previous years.

## **Outcome**

- 2.21 We have reviewed the Maximum Average Price submission provided by Power NI and are satisfied that the calculated price is appropriate. We have agreed that the new standard domestic tariff of 30.21 p/kWh (ex VAT) shall take effect from 1 July 2023.