



**Conclusion of the
Utility Regulator's Review of
the SSE Airtricity Gas Supply
(NI) Ltd
Maximum Average Price in
Greater Belfast and West
Area**

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 customers is at the heart of the Utility Regulator's role and ensuring that customers pay the correct price for energy from the price regulated supplier SSE Airtricity Gas Supply (NI) Limited (SSE Airtricity) is a core part of our work.

We commenced a review of the maximum average price with SSE Airtricity in April 2023. We have scrutinised the submission provided by SSE Airtricity to ensure that the maximum average price approved is not more than the sum of the costs allowed under the price control determination. This ensures that customers pay no more than the costs of purchasing and supplying gas plus a pre-determined allowance for the operating costs of the business and an agreed profit margin.

In November 2022, the UK Government implemented its Energy Price Guarantee (EPG) Scheme which applies a discount to energy unit rates; and customers will pay the unit rate calculated after the discount has been applied. It applies across the UK to all gas suppliers' standard variable tariffs. However, from 1 July 2023 the discount will be zero.

The maximum average price for SSE Airtricity's domestic and small business customers in Greater Belfast will decrease to 319.53 pence per therm from 1 July 2023. This equates to a decrease of 12.2% to the bills of all domestic customers and small business customers using less than 2,500 therms per annum. However, with the removal of the EPG discount from bills, final consumer bills will increase by 10.6%.

SSE Airtricity are the commissioning/default supplier within the West area and as such the UR applies a supply price control to SSE Airtricity in the West area for domestic and small business customers. The review includes the West area in the maximum average price.

Audience

Customers and customer groups, political representatives, stakeholders, industry and statutory bodies.



Consumer impact

For SSE Airtricity customers in the Greater Belfast and West areas the cost of gas they use will be 12.2% lower. This change will affect all domestic customers and small business customers using less than 2,500 therms per annum. The change will take effect from 1 July 2023. However, the energy price guarantee (EPG) discount rate has also been reduced to zero. This reduction more than offsets the reduction to the SSE Airtricity base tariff. The result is an increase of 10.6% to the actual price that SSE Airtricity customers will pay.



1. Context

- 1.1 On 4 April 2023 the Utility Regulator (UR), in consultation with SSE Airtricity Gas Supply (NI) Limited (SSE Airtricity), the Department for the Economy (DfE) and the Consumer Council Northern Ireland (CCNI) began a review of the SSE Airtricity maximum average price for domestic and small business customers using less than 2,500 therms per annum. The current maximum average price has been effective from 1 October 2022 and covers approximately 195,000 domestic and small business customers within the Greater Belfast Area and 3,200 in the West area.
- 1.2 We carry out formal reviews of the SSE Airtricity maximum average price on a bi-annual basis (in advance of April and October). On an ongoing basis we analyse the cost of wholesale gas on the forward curve, along with the forward purchases that SSE Airtricity has made to date. Reviews can therefore also happen throughout the year if they are necessary to prevent over or under recoveries of revenues becoming too large.
- 1.3 Following a drop in the wholesale price of gas, we initiated this formal review to establish and approve the new maximum average price to become effective from 1 July 2023. The review is a formal process agreed by SSE Airtricity and the UR, and includes consultation with DfE and the CCNI. It is set out within the SSE Airtricity¹ price control.
- 1.4 SSE Airtricity uses the maximum average price to set the actual range of tariffs that are charged to customers. The tariffs are calculated on a weighted average basis, based on average usage and the number of customers using each tariff. SSE Airtricity cannot charge more than the maximum average price overall.
- 1.5 From 1 July 2023 the maximum average price for domestic and small business customers will be 319.53 pence per therm; decreasing from from 363.79 pence per therm in the current tariff which was last set on 1 October 2023. The tariff will be kept under constant review. However, due to the removal of discounts afforded to consumers through the UK government's Energy Price Guarantee scheme, end consumer bills will increase.

October Tariff Review and the Energy Price Guarantee

- 1.6 From 1 October 2022 the unit rate (incl. VAT) paid by SSE domestic credit customers was set at 18.008 p/kWh for the first 2,000 kWh and 12.338 p/kWh

¹ Price Control for SSE Airtricity Gas Supply (NI) Ltd and firmus energy (Supply) Ltd Final Determination 4th November 2019: https://www.uregni.gov.uk/sites/uregni/files/media-files/SSE%20Airtricity%20-%20SPC20%20Final%20Determination_v1.1.pdf



thereafter. This equated to an annual bill for the typical customer of £1,594 (incl. VAT).

- 1.7 However, since November 2022, Northern Ireland consumers have had a discount on their bills through the UK government's Energy Price Guarantee Scheme (EPG). This means that the final consumer bill has been less than the agreed tariff following the application of the relevant discount. The UK government has been reviewing the level of discount quarterly to take account of changes to the underlying wholesale fuel costs. In March 2023, the UK government set the EPG discount for a unit cost of gas in Northern Ireland to 2.733 p/kWh (incl. VAT) from 1 April 2023. This discount meant the typical annual bill for a domestic credit customer with SSE fell to £1,266 from 1 April 2023.

How is the tariff changing in July 2023?

- 1.8 There are two changes that will have an impact on SSE's customer's tariffs from 1 July 2023:
1. Following this regulated tariff review, the SSE maximum average price for domestic and small-business customers will fall by 12.2% to 319.53 pence per therm (p/therm); down from 363.79 p/therm in the October 2022 tariff.
 2. The EPG discount applied to NI gas tariffs is reducing from 2.603 p/kWh (ex. VAT) to 0 p/kWh (ex. VAT). This removes the discount NI gas customers were receiving on their bill.
- 1.9 The decrease of 12.2% to the SSE base tariff is more than offset by the decrease in the EPG discount to zero – meaning that the typical SSE credit customer will have an annual bill of £1400 from 1 July 2023. This is an increase of 10.6% or £134 to the current annual bill amount of £1,266.
- 1.10 Table 1 below shows the change since April 2023 to the annual bill payable by SSE customers.



Table 1 – SSE domestic credit tariff (based on 12,000 kWh consumption)

Rates and bills (All incl. VAT)	Apr 2023	Jul 2023
Tariff Rate 1 (<2,000 kWh) (p / kWh) without EPG discount	18.008	15.811
Tariff Rate 2 (>2,000 kWh) (p / kWh) without EPG discount	12.338	10.833
Supplier Annual Bill ² (£ / year) without EPG discount	£1,594	£1400
EPG Discount (p / kWh)	2.733	0
Effective Annual Bill ³ (£ / year) including EPG discount	£1,266	£1400

- 1.11 The new maximum average price has been modelled and forecast over a period of 12 months. However, it will be kept under constant review and adjusted within that time period if required. We will complete another formal review in advance of 1 October 2023 and will continue to monitor gas prices to identify if an additional review is required.
- 1.12 We scrutinised SSE’s submission, ensuring that the maximum average charge per unit supplied is not more than the sum of the input costs allowed in the price control formula. Following consultation with the Department for the Economy and the Consumer Council, the final tariff was approved.

2. Background

- 2.1 In Northern Ireland, there are three distinct distribution areas for natural gas. These are the Greater Belfast area, the Ten Towns area and the West area. Phoenix Natural Gas Limited (PNGL) own and operate the distribution network in the Greater Belfast area, firmus energy (Distribution) Limited own and operate the distribution network in the Ten Towns area while Scotia Gas Networks (SGN) own and operate the distribution network in the West area.
- 2.2 In the Greater Belfast area SSE Airtricity⁴ has operated as the incumbent gas supplier since 1996. Only one competing supplier has been active in the domestic gas market since 2010. SSE Airtricity is still the dominant and commissioning/default supplier in the Greater Belfast area and so the UR applies a price control which covers all domestic customers and small business customers using less than 2,500 therms (73,200 kWh) per annum.

² What the typical customer would pay, excluding EPG discount

³ What the typical customer will pay, including EPG discount

⁴ In June 2012, Airtricity Energy Supply (Northern Ireland) Ltd purchased the entire issued share capital of Phoenix Supply Ltd and was subsequently renamed SSE Airtricity Gas Supply (NI) Limited (SSE Airtricity).



The market for business customers using more than 2,500 therms is more competitive and SSE Airtricity are not in a dominant position in that market so there is no price control for that sector.

2.3 In the West gas area, which covers amongst others the areas around Strabane and Enniskillen, SSE Airtricity are the commissioning/default supplier and as such we apply a supply price control to SSE Airtricity for domestic and small business customers.

2.4 Under the terms of SSE Airtricity's licence⁵ to supply gas, we have the power to control the maximum amount that SSE Airtricity can charge for gas. This price control is included in SSE Airtricity's licence. Below is an extract from the SSE Airtricity licence:

Control over charges

"The Licensee shall take all reasonable steps to secure that in any Relevant Year the average price per unit of gas supplied by it to Regulated Premises shall not exceed the maximum price calculated in accordance with Condition 2.4.2".

2.5 We have established a price control determination which sets out SSE Airtricity's allowed costs. The price control determination sets out how each of the costs will be treated in the maximum average price.

Elements of Maximum Average Price

2.6 The maximum average price is made up of a number of costs:

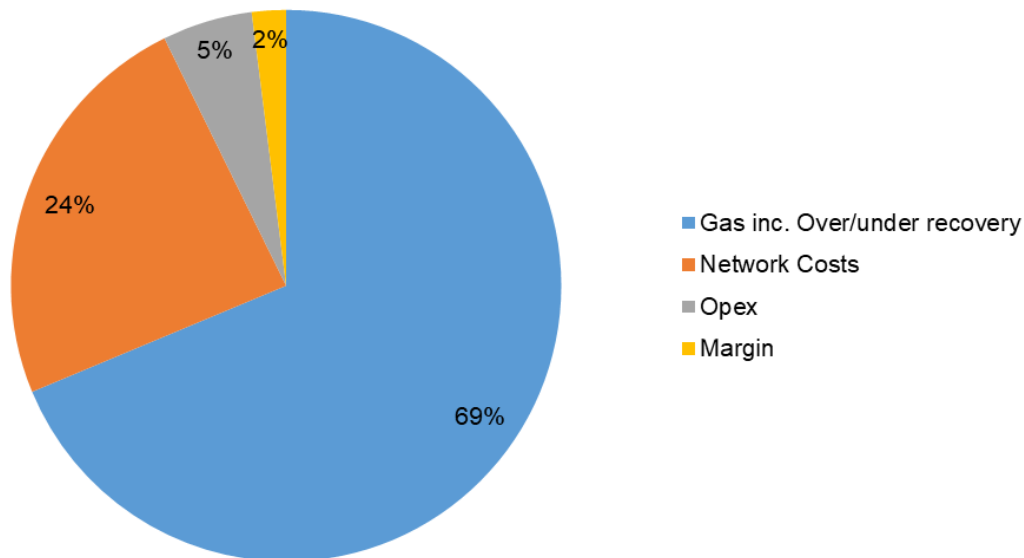
- Operating costs;
- Supply margin;
- Network costs; and
- Wholesale cost of gas.

2.7 The breakdown is shown in Figure 1 below.

⁵ SSE Airtricity Licence for the supply of gas: [2023.04.01 SSE Airtricity Gas Supply NI Ltd \(PSL\) Supply Licence](https://www.uregni.gov.uk/2023.04.01-SSE-Airtricity-Gas-Supply-NI-Ltd-PSL-Supply-Licence) | [Utility Regulator \(uregni.gov.uk\)](https://www.uregni.gov.uk)



Figure 1 – Makeup of the maximum average price from 1 July 2023



2.8 We scrutinise the costs within each of the elements of the maximum average price of SSE Airtricity’s submission. SSE Airtricity uses the maximum average price to set the actual tariffs that are charged to customers. SSE Airtricity cannot charge more overall than the maximum average price.

Operating Costs and Supply Margin

2.9 Operating costs are the costs necessary for SSE Airtricity to run its supply business. These costs include the costs of billing, customer service, offices, meter reading, salaries and IT systems etc. The operating costs were determined under our price control.

2.10 The margin refers to the amount of profit SSE Airtricity is allowed to make. The margin is also determined within the price control and is set at 2% of allowable turnover from price regulated customers.

2.11 In December 2022 we published the final determination for the SSE Airtricity price control⁶ which indicates the total amount of revenue that the Licensee can recover, in any relevant year, in respect of their gas supply businesses.

2.12 The price control determination runs from 1 April 2023 to 31 March 2026.

Network Costs

2.13 Network costs cover the charges for the use of the Northern Ireland

⁶ Price Control for SSE Airtricity Gas Supply (NI) Ltd Final Decision 20th December 2022 [SSE Airtricity Gas Supply \(NI\) Ltd 2023-2027 price control final determination and licence modifications published | Utility Regulator \(uregni.gov.uk\)](#)



transmission and distribution systems. These charges are reviewed and approved by us as part of the network price controls.

- 2.14 The SSE Airtricity price control determined that the transmission and distribution system charges will be treated as pass through charges which means that the customer pays no more or less than the actual cost of the network charges.
- 2.15 The costs for the transmission system are those costs involved in bringing gas from Scotland to Northern Ireland, via the Scotland to Northern Ireland Pipeline, and all the transmission pipelines within Northern Ireland. These costs are published on the [Gas Market Operator NI](#) and [National Grid](#) websites.
- 2.16 The costs for the distribution system are those costs associated with moving gas throughout the Greater Belfast area and the West area to homes and businesses. On the 28th October 2022 the final determination on the price control for Northern Ireland's gas distribution networks for 2023-2028 (GD23), and associated licence modifications for consultation, were published. GD23 is the distribution price control for Phoenix Natural Gas Limited (PNGL), firmus energy (Distribution) Limited and SGN Natural Gas Limited which runs from 1 January 2023⁷. The distribution price control determines the amounts that PNGL or SGN can charge for suppliers to use the Greater Belfast or West network. These can be found on the [Phoenix Natural Gas](#) website.

Wholesale Gas Costs

- 2.17 As determined within the SSE Airtricity price control, the gas cost element of the maximum average price incorporates the wholesale cost of gas as well as charges for transporting gas through Great Britain and costs for securing credit cover associated with purchasing wholesale gas.
- 2.18 The SSE Airtricity price control determines that gas costs are treated as pass through which means that the customer pays no more or less than the actual cost of gas. Therefore where wholesale gas costs decrease or increase over those set in the tariff, the resulting savings or additional costs are passed on to the customer.
- 2.19 SSE Airtricity has a gas purchasing strategy in place which means that they purchase a percentage of their forecast volumes in advance on an ongoing basis. This is known as hedging and limits the exposure to fluctuations in wholesale gas prices and therefore aims to create more stability in the gas

⁷[Final determination for the gas distribution price control, GD23, published | Utility Regulator \(uregni.gov.uk\)](#)



price for final customers. It is important to note that SSE Airtricity's hedging strategy will be specific to it, and due to the specific timing of forward gas purchases the price paid will be different from other suppliers who will purchase different volumes at different time periods (and hence at different prices as the gas market moves on a daily basis). Hence, the overall wholesale cost of gas for SSE Airtricity will likely always differ somewhat from that of other gas suppliers even though they are purchasing from the same gas market. However, over the medium-term, the gas cost element of the end customer bill will be broadly the same for the two regulated gas suppliers in Northern Ireland.

- 2.20 At the time of review, the overall cost of gas for the maximum average price is estimated based on a combination of actual gas purchases that have already been secured, along with forecast volumes of gas required, and the forecast wholesale cost of that gas which has yet to be bought (based on the gas price forward curve). Buying gas in advance (hedging) can help to reduce any over/under recoveries building up as the price of the hedged gas in the maximum average price is known when the price is set.

Over/Under Recovery from Previous Tariff Periods

- 2.21 Wholesale gas costs make up a large component of the final maximum average price and as these costs can be volatile there will always be a difference between the outturn cost of the wholesale gas that has yet to be purchased compared to the forecast costs that were included when the maximum average price was set.
- 2.22 Where the wholesale gas costs out turn less than was forecast in the maximum average price, SSE Airtricity will 'over recover'. This means that they recovered more money from customers than they spent on gas costs and they will subsequently refund the over recovered difference to customers in the following tariff period.
- 2.23 Alternatively, where the wholesale gas costs turn out higher than forecast in the maximum average price, SSE Airtricity will 'under recover', this means they spent more on gas costs than they recovered from customers and they will therefore be able to re-charge the under recovered difference to customers in the following tariff period. This ensures that customers only pay for the actual cost of gas.
- 2.24 Therefore, each maximum average price includes an amount of over or under recovery which was accumulated during the previous tariff period.



- 2.25 Both SSE Airtricity and the UR strive to keep the over/under recovered amount as low as possible in order to avoid distortion of the maximum average price. This is carried out through ongoing monitoring and tariff changes being put through when over or under recoveries are accumulating to such an extent that they would adversely affect the tariff.

3. Why is the Maximum Average Price for SSE Airtricity decreasing?

- 3.1 The underlying maximum average price for SSE Airtricity's tariff customers in Greater Belfast and in the West will decrease to 319.53 pence per therm from 1 July 2023. This is a decrease of 12.2%. However, as explained in paragraphs 1.8 to 1.10, with the EPG discount reducing to zero, there will be a 10.6% increase to the actual cost SSE Airtricity customers pay.
- 3.2 Table 1 below shows the movement in the regulated maximum average price from May 2008 to date.

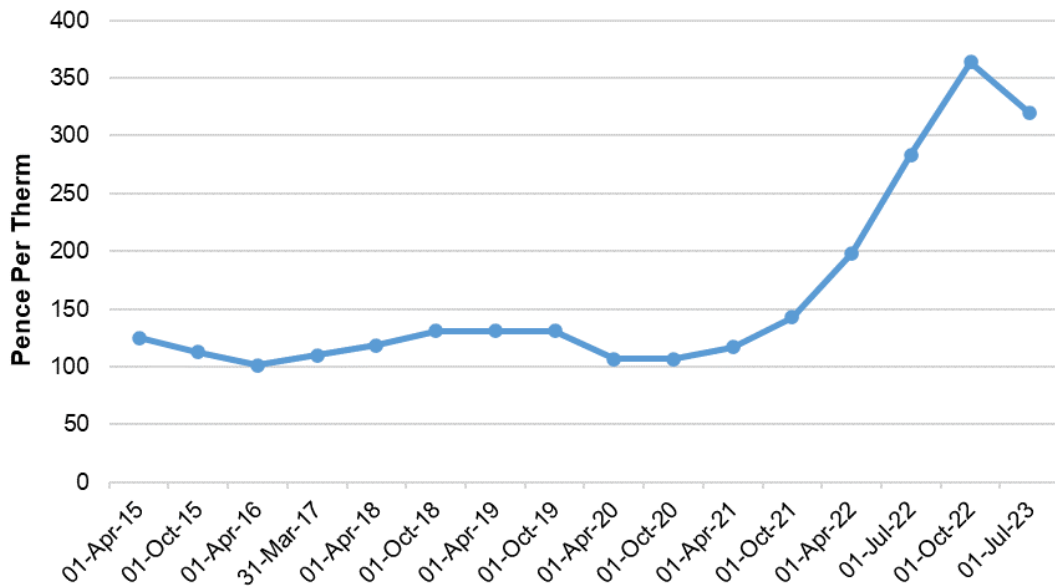


Table 1 - Historic maximum average price

Effective from date	Approved Maximum Average Price (p/therm)
01-May-08	128.00
01-Oct-08	152.58
08-Jan-09	118.92
01-Oct-09	96.32
01-May-11	133.97
01-Apr-12	122.64
01-Apr-13	133.26
01-Apr-15	125.17
01-Oct-15	112.50
01-Apr-16	101.01
31-Mar-17	109.63
01-Apr-18	118.25
01-Oct-18	131.17
01-Apr-19	131.17
01-Oct-19	131.17
01-Apr-20	106.67
01-Oct-20	106.67
01-Apr-21	117.15
01-Oct-21	142.67
01-Apr-22	198.19
01-Jul-22	283.23
01-Oct-22	363.79
01-Jul-23	319.53



Figure 2 - Historic maximum average price



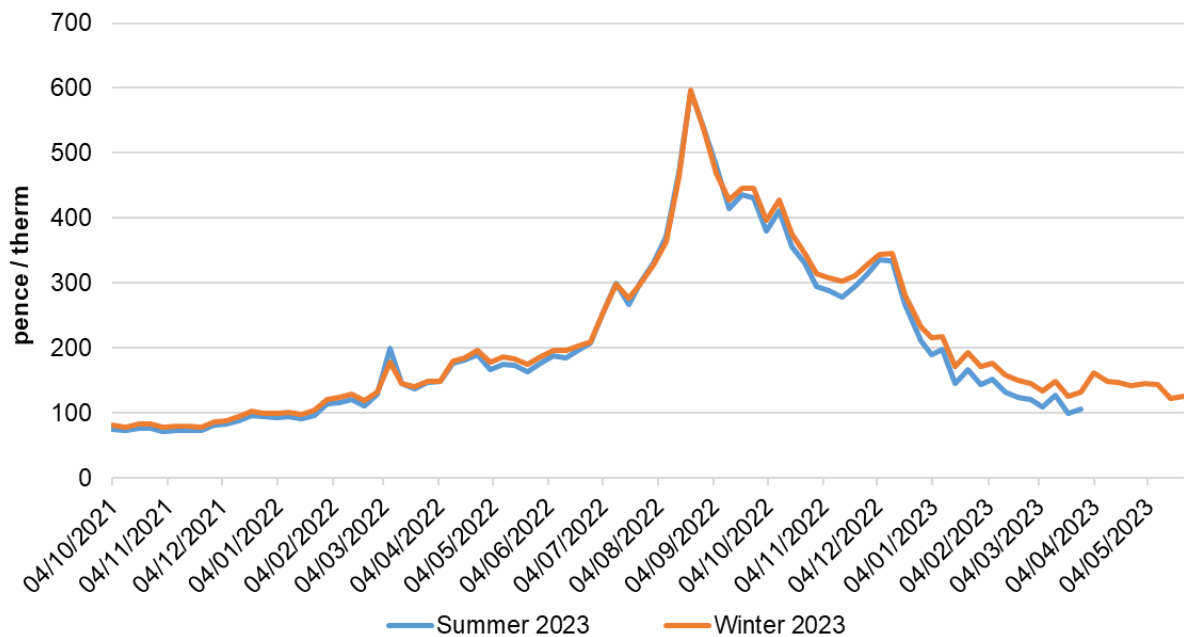
- 3.3 The overall decrease in the SSE Airtricity underlying tariff is primarily due to the decrease in the cost of wholesale gas.

Decrease in Forecast Cost of Wholesale Gas

- 3.4 There have been steady decreases in the forward wholesale gas markets (which have been trading at all-time high prices). This has been caused by an increased supply and high gas storage levels. These factors have led to a decrease in the maximum average tariff.



Figure 3 – Movement in forward curve of wholesale gas cost



Source: Intercontinental Exchange

3.5 This decrease in SSE Airtricity’s commodity costs is the largest driver of the underlying regulated tariff decrease. As can be seen in Table 2, SSE Airtricity’s wholesale gas costs decreased from 281.41 p/therm in the current tariff to 202.42 p/therm in the 1 July 2023 tariff. It is important to note that an element of the gas price included within the maximum average price for the 1 July 2023 tariff is a forecast cost and the actual outturn prices may be higher or lower. This element is the cost of the gas that has not already been bought (hedged) to date.



Table 2 – Wholesale Costs within Maximum Average Price

Elements within Maximum Average Price	October 2022 (p/therm)	July 2023 (p/therm)
Wholesale Gas Cost	281.41	202.42
(Over)/Under Recovery	3.88	17.16
Total Wholesale Gas Cost and Over/Under Recovery from Previous Tariff Periods	285.28	219.58

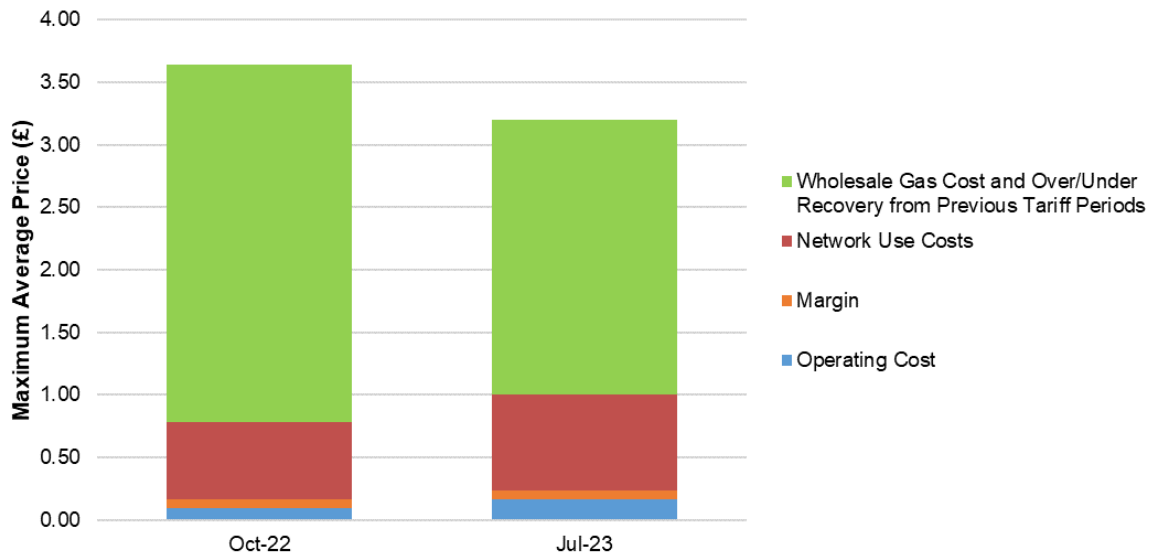
- 3.6 The maximum average price coming into effect from 1 July 2023 also includes an under recovery of 17.16 p/therm from the existing tariff period. This is primarily due to the increasing gas commodity costs in 2022 coupled with an increase to network costs, which resulted in SSE Airtricity paying more for gas that had not already been hedged since the tariff was set in October 2022. This amount, along with the increased network cost, will be recovered in the new 1 July 2023.
- 3.7 As shown in Table 2 above, overall the combined cost of wholesale gas and over/under recovery has decreased from 285.28 p/therm in the 1 October 2022 tariff to 219.58 p/therm in the 1 July 2023 tariff.



4. Breakdown of Maximum Average Price

- 4.1 The graph shown in Figure 4 below compares the breakdown of the July 2023 SSE maximum average price with a breakdown of the previous price set in October 2022. As explained previously, the decrease in the underlying price is due to the decrease in the cost of wholesale gas.

Figure 4 – Breakdown of July 2023 price compared with the previous price



Impact on Tariff

- 4.2 SSE Airtricity uses the maximum average price to set the actual tariffs charged to customers. The tariffs are calculated on a weighted average basis, based on average usage and the number of customers on each tariff. SSE Airtricity cannot charge more than the maximum average price overall.
- 4.3 The new unit rates for tariff customers that will apply from 1 July 2023 are shown in Table 3.



Table 3 – SSE Airtricity’s tariff unit rates from 1 July 2023 (shown in p/kWh including VAT)

SSE Airtricity Gas Supply (NI) Tariffs	Domestic (inc. 5% VAT)	PAYG (inc. 5% VAT)	IC1 (inc. 20% VAT)
Up to 2,000 kWh	15.811	11.502	15.811
Over 2,000 kWh	10.833	11.502	10.833
Over 73,200 kWh	-	-	10.032
Direct Debit discount	£22.05	-	£22.05

4.4 SSE Airtricity’s typical domestic credit bill with the EPG discount reduced to zero will increase to £1,400 per annum⁸ from 1 July 2023. This equates to an increase of around £134 per year compared with the existing bill which includes an EPG discount of 2.733 p/kWh (this equated to a reduction of £328 on an annual bill).

Comparison with GB and Ireland

4.5 Figure 5 below, shows the average annual bill of a domestic customer for SSE Airtricity compared with Bord Gais⁹ in Ireland and the Default Tariff Cap level in GB.¹⁰ The average annual bill amounts in this graph have been calculated based on actual tariff unit rates (including VAT) and are based on an average annual consumption of 12,000kWh.

4.6 From 1 July 2023, SSE Airtricity’s tariff will cost the typical domestic credit customer £1,400 per annum, which is 30% more than the GB Gas Price Cap and 20% less than the Bord Gáis standard gas tariff in Ireland.

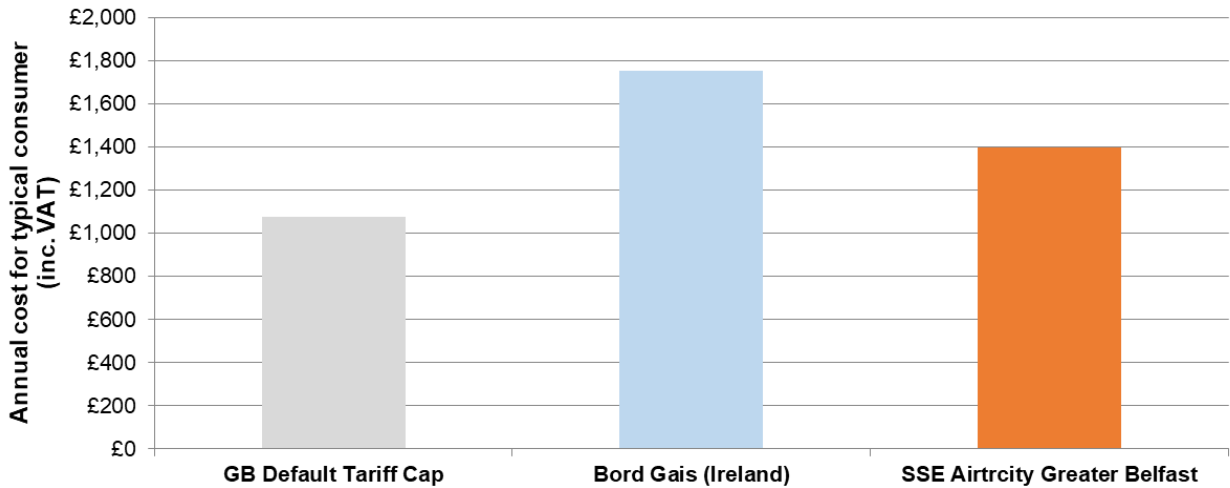
⁸ Based off a typical consumption of 12,000 kWh per annum. Including VAT. Excluding discounts.

⁹ <https://www.bordgaisenergy.ie/home/our-tariffs>

¹⁰ [Default tariff cap level: 1 July 2023 to 30 September 2023](#)



Figure 5 - Comparison of average annual domestic bills (based on standard domestic credit customers with estimated usage 12,000kWh per annum including VAT)



Conclusion

- 4.7 We have reviewed the maximum average price submission provided by SSE Airtricity and reviewed SSE Airtricity's forecasts against its own market analysis. We are satisfied that the final tariff is appropriate and justified and therefore approves the new maximum average price of 319.53 p/therm for SSE Airtricity's tariff customers in Greater Belfast. This maximum average price will be effective from 1 July 2023 and will see a decrease of 12.2%.
- 4.8 However, with the reduction in the EPG discount to zero, the effective change to the SSE tariff will be an increase of 10.6%.
- 4.9 The Utility Regulator retains the flexibility to initiate a review of gas prices at any stage if it is considered to be in the interest of customers.