

**SSE Airtricity Gas Supply: Profit Margin  
Prepared for the Utility Regulator****8 June 2026****1. Introduction**

This paper examines the profit margin that ought to be factored into the Utility Regulator's calculation of SSE Airtricity's gas supply price control.

It is structured into four main parts:

- section 2 outlines our methodology for estimating the required margin;
- section 3 provides a reminder of the calibrations that were used previously to set SSE Airtricity's current margin of 2.0% of turnover;
- section 4 gives a brief summary of the submission made by SSE Airtricity; and
- section 5 sets out our analysis.

**2. Methodology**

SSE Airtricity's price control provides for a maximum average price calculated as the sum of allowances for wholesale gas purchase costs, network costs, allowed supply operating costs and an allowed profit margin.

A supplier's allowed profit margin can be expressed as a margin on forecast turnover (e.g. the aforementioned figure of 2.0%). However, on each occasion since 2013 that the Utility Regulator has undertaken a full review of a NI supply business's profit requirements (i.e. the 2013 and 2025 Power NI price reviews, and the 2016 and 2022 resets of the Firmus Energy Supply (FES) and/or SSE Airtricity gas supply price controls), the Utility Regulator's underlying calculations have come to focus on the amount of financial capital that a supply business requires and the annual cost of that capital, i.e.:

$$\text{profit in } \text{£m} = \text{capital base} \times \% \text{ cost of capital}$$

The thinking behind this approach is that profit is first and foremost a return that can be distributed to investors, either in the form of fees and/or interest payments (in the case of debt obligations) or as potential dividends and/or capital appreciation (in the case of equity investments). To calibrate the appropriate amount of profit, it makes sense to think in terms of the percentage return on any debt that a company is taking and/or the percentage return on the equity capital that shareholders have agreed to put behind a firm.

This aligns with the way that investors view investments in companies. If the percentage return that is factored into the Utility Regulator's supply price controls is set so that it is in line with the risk-adjusted returns that are available elsewhere on other similar-looking investments (i.e. in line with the opportunity cost of capital), it ought to be that providers of capital will look favourably on the regulated supply businesses as investments and exhibit a willingness to supply the facilities and equity capital base that the businesses need in order to provide services to customers. We can also say that mistakenly setting returns above the opportunity cost of capital will result in customers paying more than they strictly need to. Conversely, if the returns on offer lie below the opportunity cost of capital, there is a danger that the investor community might shun a supplier – i.e. a licensee will not be 'financeable' – thus presenting an avoidable risk to service.

For the avoidance of doubt, it can still be that the profit margin factored into price controls is ultimately presented in regulatory documents and in price control formulae as a percentage of turnover, as has been the Utility Regulator's practice historically. Following the thought process that we have just outlined, what is important is not the presentation per se but that the regulator is confident that the allowed £m profit is sufficient to provide a fair and reasonable return on the capital that the business will need.

This requires detailed consideration, in turn, of both the scale of a company's financial capital requirements and the cost of the capital.

In the case of the capital base, it is necessary to work through the size of requirements under the following headings.

- Fixed assets: energy retail businesses might wish to have their own premises and their own office/IT equipment. There may also be upfront investments in software and systems for billing and customer service activities.
- Working capital: the nature of an energy retail business is such that companies can make payments to upstream suppliers and networks before they collect revenue from customers. There can also be situations in which price control arrangements recognise costs with a lag. This creates a working capital requirement.
- Collateral and security deposits: suppliers buy gas from wholesale counterparties. These trades can require a supply business or its owner to put up some form of collateral to underpin their commitment to paying for purchases. Retailers may also lodge security deposits, collateral or guarantees with the market operator and with the networks that they use to transport energy to the consumer.
- Standby risk capital: it may also be appropriate for suppliers to have an amount of money on standby to deal with unforeseeable day-to-day deviations to cashflow.

As far as the cost of the above capital is concerned, it for the most part makes sense to apply the methods that regulators typically use when calculating allowed returns for regulated companies more generally. This entails, in particular, the use of the capital asset pricing model (CAPM) to estimate the cost of equity.

One additional challenge is that a supply business need not necessarily take monies from investors upfront but rather can obtain undertakings that capital will be made available (up to a certain amount) in specified circumstances. It is necessary to ask what rate of return this 'contingent' capital ought to be rewarded at, as distinct from the rate of return on actual, upfront investment, so as to recognise any difference in the opportunity cost that is imposed on the provider.

Our take on all of the above matters in the case of SSE Airtricity's business is set out in section 5 below.

### **3. Current Margin**

Before turning to our calculations, we think it will be helpful to first summarise the Utility Regulator's thinking in its previous reviews of SSE Airtricity's required margin, as well as the submission that SSE Airtricity made to the Utility Regulator on its required margin for the 2027/28-30/31 price control period.

The last full, clean-sheet assessment of SSE Airtricity's profit margin took place in 2016 as part of the Utility Regulator's SPC17 review of the price control for the period 2017/18-19/20. The

company's submission during this review used the capital base x cost of capital methodology that we described in section 2. SSE Airtricity identified that:

- its regulated business would likely need access to financial capital worth up to £29m;
- the Utility Regulator should make allowance for a valuation of the customer book of £4.5m;
- the cost of equity capital would likely be 10-13%; and, as a consequence
- the required margin was in the range 4.1% to 6.6%.

The Utility Regulator commissioned First Economics to review SSE Airtricity's costings. For the most part, we accepted SSE Airtricity's sizing of its potential capital other than one small double count that we found in the valuation of fixed assets. We also removed the allowance that SSE Airtricity made for the value of its customer base, on the grounds that this was not an admissible cost. We proposed a cost of equity of 10.0% at the lower end of SSE Airtricity's range. Finally, we advised the Utility Regulator that the 'contingent' capital in SSE Airtricity's capital base would not impose the same cost as an upfront cash injection and could be remunerated at a lower rate of 2.0%.

Table 1 reproduces our final margin calculation.

**Table 1: First Economics' margin calculation, 2016**

	<u>Capital amount</u>	<u>Cost</u>	<b>Total</b>
Actual capital			
- Fixed assets	£0.3m	10.0%	£0.03m
- Working capital requirement	£1.7m	10.0%	£0.17m
Contingent capital			
- Collateral for gas purchases	£8.2m	2.0%	£0.16m
- Collateral for network charges	£17.2m	2.0%	£0.34m
- Standby risk capital	£1.4m	2.0%	£0.03m
<b>Required margin</b>			£0.74m
Forecast revenues (B)			£71.7m
<b>% profit margin (i.e. A / B )</b>			<b>1.0%</b>

Source: First Economics (2016), SPC17 profit margins.

We benchmarked the 1.0% figure in the final row of the table to a similar capital base x cost of capital calculation for FES, the margin in Power NI's electricity supply price control, and to the Competition & Markets Authority's work on margins in the GB energy retail market, among other reference points. These comparisons led us to conclude that the SPC17 margin should fall in the range 1.0% to 2.1%.

The UR's final determination provided for a figure towards the top end of this range of 2.0%.

#### **4. SSE Airtricity's SPC27 Submissions**

SSE Airtricity said in its response to the Utility Regulator's initial SPC27 consultation document that it agreed that it would be necessary to conduct a brand new assessment of the business's capital requirement and cost of capital.

The company provided the Utility Regulator with a report by Baringa in January 2026 identifying forecast capital requirements for the years 2027/28 to 2030/31 and the cost of that capital. Baringa's margin calculation is reproduced as table 2 below.

**Table 2: Baringa's proposed margin calculation**

	<u>Capital amount</u>	<u>Cost</u>	<b>Total</b>
Fixed assets (staff equipment)	£0.5m	12.0%	£0.06m
Fixed assets (billing system)	£8.2m	12.0%	£0.99m
Customer acquisition value	£3.4m	12.0%	£0.41m
Working capital	£5.9m	12.0%	£0.71m
Collateral (gas)	£13.5m	0.65%	£0.09m
Collateral (network PCG)	£33.1m	0.65%	£0.22m
Collateral network (LOC)	£37.5m	0.55%	£0.21m
Standby capital (cash)	£5.9m	12.0%	£0.71m
Standby capital (bank facility)	£7.8m	4.75%	£0.37m
<b>Required margin (A)</b>			<b>£3.76m</b>
Forecast revenues (B)			£142m
<b>% profit margin (i.e. A / B )</b>			<b>2.65%</b>

Source: Baringa (2026), SSE Airtricity margin for SPC27.

In a response to a Utility Regulator information request, SSE Airtricity acknowledged that the above calculations are for the gross margin and that some of the costs shown in the table may be recovered via the  $G_t$  term in SSE Airtricity's licence rather than via the allowed profit margin.

In the same response, SSE Airtricity also increased its estimate of its cost of capital from 12.0% to 12.5%.

Table 3 sets out our understanding of SSE Airtricity's  $M_t$  margin request of the Utility Regulator as at 8 June 2026.

**Table 3: SSE Airtricity's proposed margin calculation**

	<u>Capital amount</u>	<u>Cost</u>	<b>Total</b>
Fixed assets (staff equipment)	£0.5m	12.5%	£0.06m
Fixed assets (billing system)	£8.2m	12.5%	£1.03m
Customer acquisition	£3.4m	12.5%	£0.43m
Working capital	£5.9m	12.5%	£0.74m
Collateral (gas)	£13.5m	0.65%	£0.09m
Collateral (network PCG)	£33.1m	0.65%	£0.22m
Collateral network (LOC)	£37.5m	0.55%	£0.21m
Standby capital (cash)	£5.9m	12.5%	£0.74m
Standby capital (bank facility)	£7.8m	4.75%	£0.37m
<b>Required margin</b>			<b>£3.85m</b>
To be recovered via $G_t$			(£0.51m)
<b>To be recovered via <math>M_t</math> (A)</b>			<b>£3.34m</b>
Forecast revenues (B)			£142m
<b>% profit margin (i.e. A / B )</b>			<b>2.37%</b>

Source: email from SSE Airtricity to the Utility Regulator on 8 June 2026.

## 5. Our Analysis

Our perspective on SSE Airtricity's submission is as follows.

### 5.1 Capital base

#### 5.1.1 Overview

We are grateful to SSE Airtricity for the clear and comprehensive paper from Baringa.

Given the short time available to us to complete our work, we have not been able to validate all of the figures that SSE Airtricity has put forward. However, we can make the following high-level observations:

- first, we agree that all but one of the named line items in table 2 give rise to a potential requirement for capital, with a resulting cost that ought to be recoverable through SSE Airtricity's price control;
- the one exception is the line for 'customer acquisition value', which, as we explain below, is not a cost that the Utility Regulator has previously recognised when setting a profit margin; and
- this one issue of principle aside, the main question that we have considered in our work is whether SSE Airtricity's forecast capital requirement is sized appropriately in light of historical experience and the specific circumstances the business faces going into the new regulatory period.

#### 5.1.2 Value of the customer base

SSE Airtricity's submission identified that customers are a key source of value for a retail business, particularly when customer switching is low. Baringa argued that the Utility Regulator therefore ought to make an allowance within its capital base calculations for the 'intangible asset' that is an established customer base. It proposed that this allowance should be set equal to the commissions, customer application processing costs, marketing costs, etc. that a rival supplier, or new entrant, would incur if it set out to acquire a given number of customers each year, and characterised this notional expense as a legitimate "cost of competition".

Questions about whether to make the kind of allowance that SSE Airtricity is seeking have arisen in previous NI supply price control reviews. During the 2016 SPC17 review of gas supply price controls, we noted first of all that it would not be appropriate to make allowance within the margin calculation for costs that the Utility Regulator recognises in other parts of the price control calculation:<sup>1</sup>

In the case of FES, we sought to check first of all that the costs FES identified were not already being covered elsewhere in price control calculations, either for the supply business directly or potentially in the firmus energy's sister network company's distribution price control. FES' response on this point acknowledged that the relevant costs are being recognised elsewhere and indicated that there is no material under-provision that would necessitate making an additional allowance for costs in the capital base and margin calculations. On this basis, we are able to write the claimed amount down to zero.

In the case of the current SPC27 review, the Utility Regulator has informed us that it is making what it considers is an appropriate allowance for SSE Airtricity's expected efficient customer-facing costs

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<sup>1</sup> First Economics (2016), SPC17 profit margins.

within the  $S_t$  allowance for operating costs. We consider this to mean that there is no need to make direct allowance for the same categories of cost within the  $M_t$  margin calculation.

This leaves the question of whether an incumbent supply business should be allowed an element of margin in recognition of the value of the customers it already has. We offered the following views during our SPC17 work:

We can note, first of all, that if a company is not, in practice, incurring any customer acquisition expenses, that making such an allowance would confer an element of supernormal profit on shareholders. The question, therefore, is one of policy as much as anything else: should a regulator set price controls for a firm on the basis of pure cost recovery or should it deliberately increase an incumbent's profits and prices so as to make it more feasible for a newcomer, who will incur costs that incumbents do not, to enter and compete in the market?

We have discussed this matter with the Utility Regulator. Its perspective is that the purpose of opening markets to competition is to drive down price for end users. This will happen principally if new entrants are able to procure gas more efficiently than incumbent firms or if their own cost base is leaner than incumbent firms. If the thesis is that a regulator ought to first increase prices in the market to make it so that a new entrant with a similar level of efficiency as incumbents, but which incurs customer acquisition costs, that incumbents do not, can profitably match incumbents' prices, one might reasonably ask how it is that competition is delivering benefit for customers. Moreover, to avoid a situation where all customers end up paying more for their gas, it might be said that newcomers should deliberately be challenged to beat the prices that would prevail absent competition – i.e. the prices that permit incumbents to recover only their actual costs, including a fair return on their actual capital base.

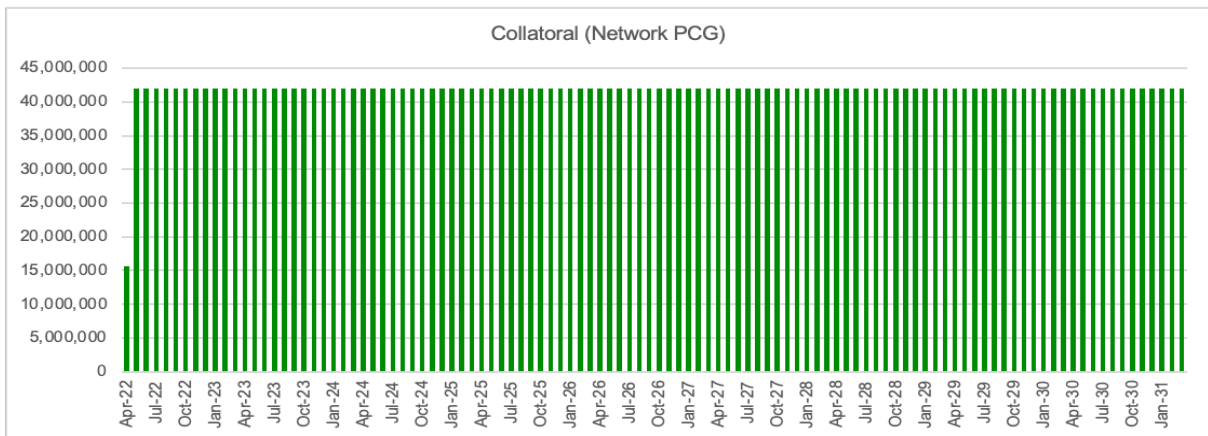
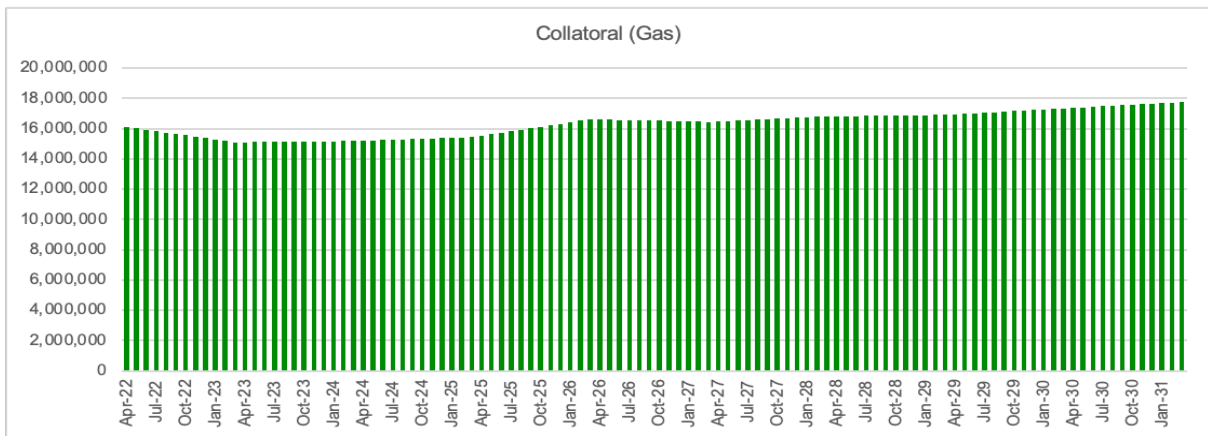
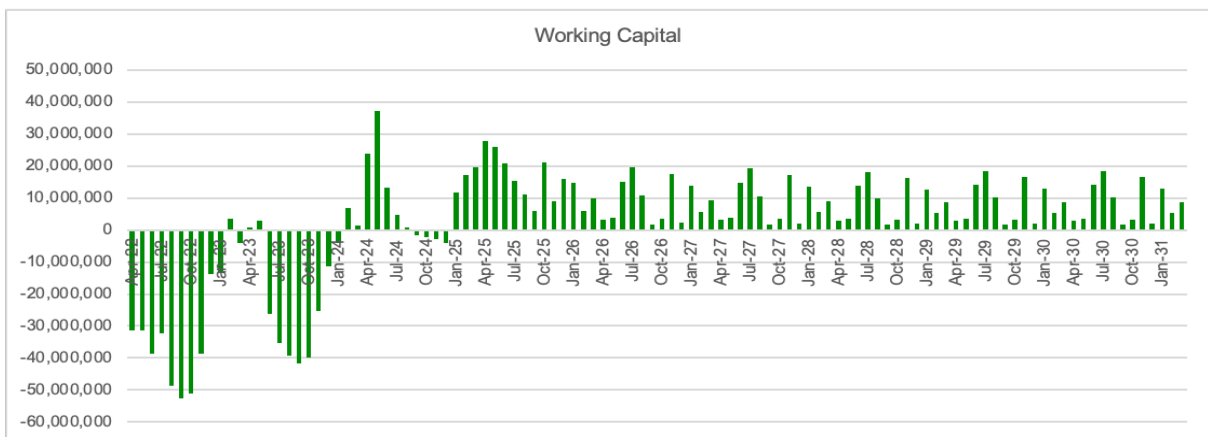
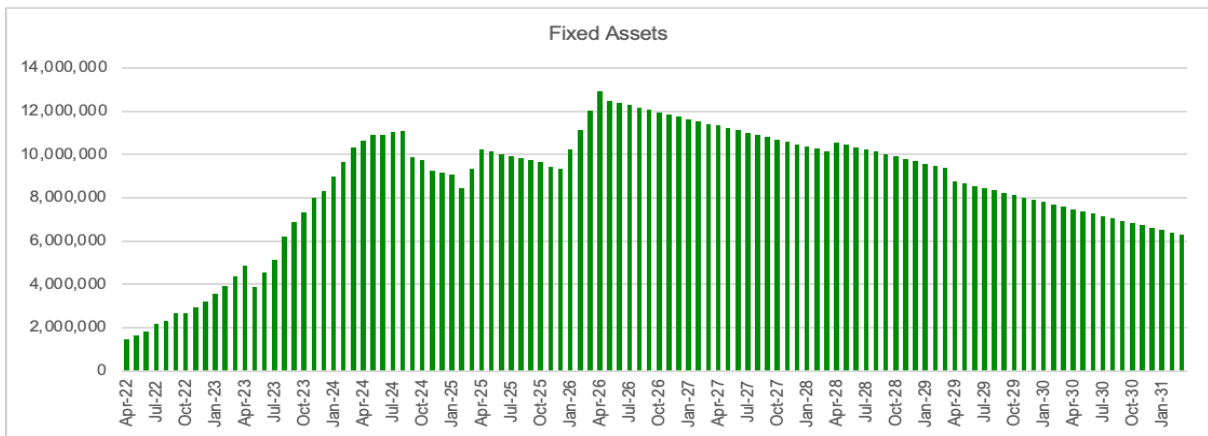
For these reasons, we are not sympathetic to the argument that we ought to provide FES or Airicity with a return on a 'notional' amount of capital that has not actually been put into the businesses by investors. Investors cannot reasonably demand that they be paid a supernormal rate of return on their investments, nor is it clear how such an allowance would pass a customer benefits test.

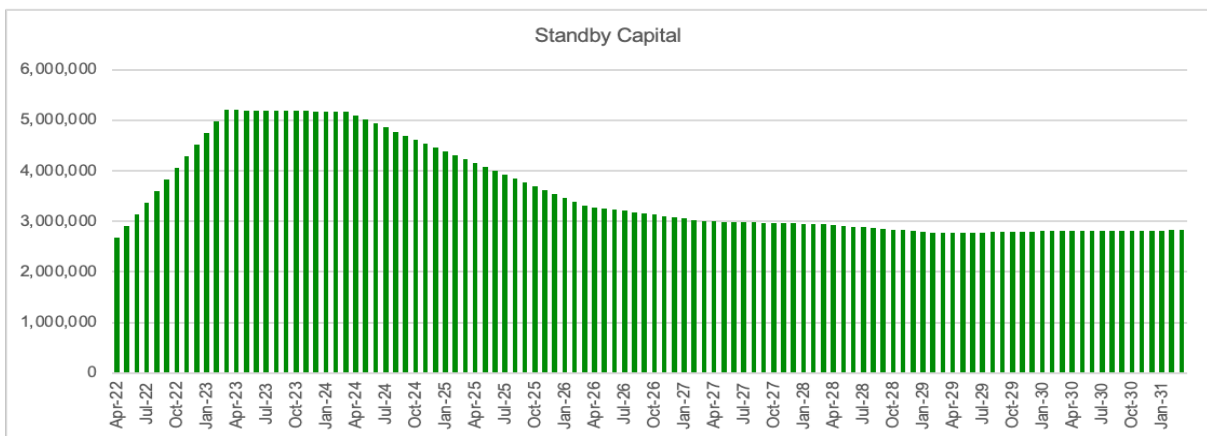
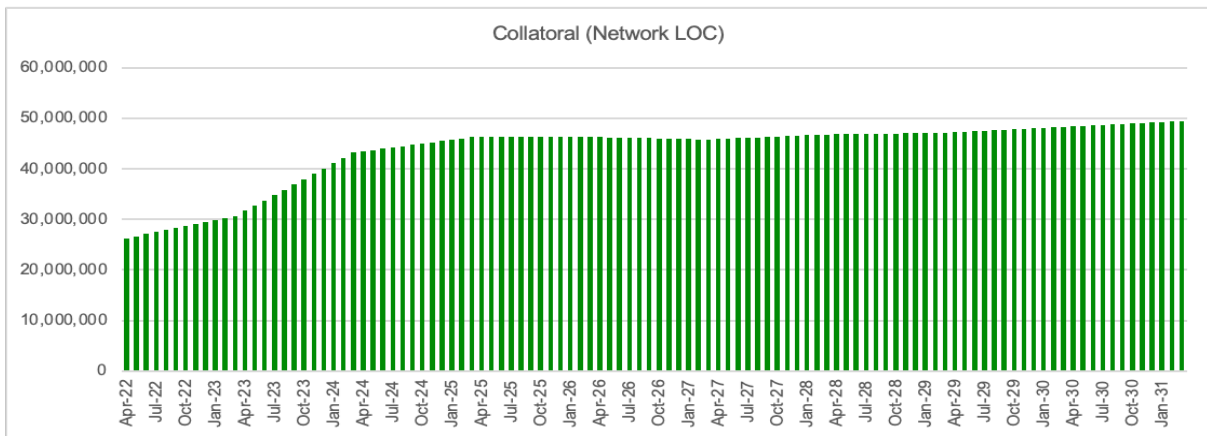
There have been no material changes in circumstances since we provided this analysis ten years ago. The question of whether to deliberately raise prices and allow incumbent suppliers to earn a supernormal profit is a policy question for the Utility Regulator, but our advice remains that the allowed margin in a price control for firms with significant market power should be set by reference to the actual cost of doing business and not include purely notional capital amounts.

### 5.1.3 Size of projected capital requirements

On previous occasions when we have sought to size the different items in a company's capital base, we have found it helpful to put a supplier's projected capital requirements next to its actual historical capital base and to look at the continuity or discontinuities in amounts over time. Figure 1 gives the relevant figures.

**Figure 1: SSE Airtricity’s historical and forecast capital requirements, £m**





Source: SSE Airtricity spreadsheet submission and First Economics' calculations.

The key feature of these charts is the degree of overall stability that there is in SSE Airtricity's forecast capital base from the last completed financial year, 2025/26, through to the end of the forecast period. This stability gives us a good amount of confidence in the robustness of SSE Airtricity's forecast figures.

We do, however, have observations about two of the items in SSE Airtricity's submitted numbers.

- Fixed assets (billing system) – Baringa's figures for fixed assets include the full cost of a billing system installed recently at a cost of £12.25m. The Utility Regulator has told us that it considers that customers have paid in full for this expenditure via previous years' tariffs and that it does not intend to make any further allowances for the costs that SSE Airtricity has incurred – e.g. via depreciation allowances – from 1 April 2027 onwards. This implies that financing costs for the investment should also logically be zero during the SPC27 period. We therefore remove this item from SSE Airtricity's submitted capital base.
- Standby capital – Baringa's figures include three separate entries for standby capital. The first is sized at 2% of revenue, the second is sized to bring the financing available to the business up to 2x cover for SSE Airtricity's projected average working capital, and the third is intended to cover the difference between the business's average and peak working capital requirements. We consider that it would have been more logical for Baringa to identify capital requirements using the headings that the Utility Regulator has used in previous price reviews – e.g. peak end-of-month working capital requirement, intramonth requirement, funding for K

correction, etc. However, we do not in this report take issue with the overall sizing of the capital base.

#### 5.1.4 Summary

The analysis and adjustments set out above point to the following capital requirement.

**Table 4: Capital base**

Category	Amount
Fixed assets	£0.5m
Working capital	£5.9m
Collateral for gas purchases	£13.5m
Collateral for network charges	£70.7m
Standby capital (cash)	£3.1m
Standby capital (bank facility)	£7.8m
Standby risk capital	£2.9m

## 5.2 Type of capital

SSE Airtricity's submission identified that its real-life capital requirements typically take the following forms.

**Table 5: Capital types**

Category	Type of capital required
Fixed assets	Cash
Working capital	Cash
Collateral for gas purchases	Parent company guarantee
Collateral for network charges	Letter of credit and parent company guarantee
Standby capital	Cash and bank facility

We take this financing structure as a given and move directly to consider the appropriate costs of capital.

## 5.3 Cost of equity capital

The pricing of equity capital can proceed in the same way as a standard regulatory cost of capital assessment.

The capital asset pricing model (CAPM) estimates the cost of equity as a function of values for the expected market return, the risk-free rate and beta, i.e.:

$$\text{Cost of equity} = \text{risk-free rate} + \text{beta} \times (\text{expected market return} - \text{risk-free rate}).$$

NB: In the case of a regulated supply business, the values of the risk-free rate and the expected market return should be computed in nominal terms.

### A. Expected market return

The Utility Regulator undertook a detailed evaluation of the expected market return in its review of NIEN's RP7 price controls. Its assessment was that it is appropriate to set the expected market

return in line with the returns that investors have historically taken from stock market investments. The Utility Regulator's preferred estimate of this long-term benchmark is 6.75% after inflation.

An expected market return of 6.75% real converts to 9.0% in nominal terms.<sup>2</sup>

#### B. Risk-free rate

The estimate of the risk-free rate should also align with the figures that the Utility Regulator applies elsewhere in its price control work. The Utility Regulator's chosen methodology involves taking readings of the yields on a basket of proxies for the riskless asset. As at February 2026, these readings pointed to a risk-free rate of around 4.75% in nominal terms.

This reading pre-dates the market turbulence caused by the war in the middle east. At the time of writing, it would be premature for us to form any judgement as to where the risk-free rate might settle during the 2027/28-30/31 regulatory period when market conditions settle. However, it may be that the Utility Regulator will need to return to this matter prior to issuing its final price control decision.

#### C. Beta

A firm's beta is a measure of the riskiness of a firm's cashflows in the eyes of shareholders.

In its report, Baringa provided for a beta of 0.97, in line with its empirical estimates of the observed betas of two GB suppliers (Centrica and Telecom Plus). This 0.97 figure is lower than the beta of 1.1 that Ofgem used in its 2023 reset of GB suppliers' margins, but higher than the beta of 0.7 to 0.8 that Ofgem use prior to 2023 and which the Utility Regulator factored into its 2025 price control determination for Power NI.

SSE Airtricity's proposed beta is, by virtue of the chosen comparator set, an indicator of the risks that suppliers in a nearby market face rather than a direct measure of the riskiness of a NI supplier. When comparing risks in NI to risks in GB, it is important to note that:

- the Gt term in the NI suppliers' licences permits NI suppliers to recover from customers any amounts that they pay for the purchase of electricity and gas; whereas
- Ofgem's energy price cap holds GB suppliers to an Ofgem-calculated benchmark for wholesale purchase costs, based on the costs that a notionally efficient supplier would incur if it adopted a particular purchasing strategy that is devised and costed by the regulator.

The different exposures to risk that these different regulatory approaches produce was clearly demonstrated during the 2022-23 energy price shock. The NI suppliers' ability to pass-through its actual purchase/hedging costs meant that, ultimately, they neither made money nor lost money on their electricity and gas purchases even in the face of a sudden and unforeseen spike in wholesale prices and consequent dislocations in the market. GB suppliers, by contrast, were frequently unable to match Ofgem's purchasing benchmark and made very substantial losses.

An expert report<sup>3</sup> that we wrote for Energy UK at the end of 2022 sets out in more detail the issues that GB suppliers have faced recently, including:

- withdrawal of hedging counterparties from the market, leaving some suppliers unable to replicate Ofgem's notional forward purchasing strategy;

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<sup>2</sup> Assuming 2.1% per annum CPIH inflation, in line with long-term market inflation expectations, and using the Fisher equation:  $(1 + \text{nominal return}) = (1 + \text{real return}) \times (1 + \text{inflation})$

<sup>3</sup> First Economics (2022), GB energy retail businesses: risk profile and cost of capital.

- intraday price variation vs the reference that Ofgem makes in its benchmark calculations to a single daily price reading at a specific point in the day;
- mismatch between the six-month periodicity of the price cap and Ofgem’s setting of a cap on annual p/kWh prices (“backwardation”); and
- uncertainty over regulated volumes, and hence the required amount of hedging, due to opportunistic switching by customers between unregulated and regulated tariffs.

It is primarily these factors, alongside the general entanglement that there has been between energy prices, inflation, and the overall health of the economy, that prompted Ofgem to move to a new beta of 1.1.

Importantly, none of the above-mentioned factors have any direct relevance to the price-regulated NI energy suppliers. Insofar as the Gt term enables Power NI, FES and SSE Airtricity to pass their actual costs on to customers and hence presents the companies with a very different exposure to risk, there is not the same case for ascribing a similarly high beta to the NI suppliers’ equity capital.

We are therefore unpersuaded that it is appropriate to use GB companies to estimate a NI supplier’s beta. We instead use a beta of 0.75 in our CAPM calculation, in line with Ofgem’s original pre-2023 beta estimate and in line with the Utility Regulator’s SPC25 beta for Power NI.<sup>4</sup>

#### D. Tax

The return that shareholders are offered on their investment needs to cover corporation tax payments (i.e. we need to calculate a pre-tax cost of capital). The UK corporation tax rate is 25%.

#### E. Overall cost of capital calculation

Table 6 brings the preceding inputs into an overall cost of capital calculation.

**Table 6: Cost of capital calculation**

Parameter	SSE Airtricity	First Economics
Expected market return	9.54%	9.0%
Risk-free rate	5.0%	4.75%
Beta	0.97	0.75
Cost of equity	9.4%	7.94%
Tax rate	25%	25%
Pre-tax cost of equity	12.5%	10.6%

Our estimate of the prevailing cost of equity is 10.6%.

#### 5.4 Cost of contingent capital

We do not consider that it is necessary to apply the 10.6% rate of return to the whole of SSE Airtricity’s capital base. Specifically, consistent with Baringa’s analysis, we do not propose to use a 10.6% costing for contingent capital – i.e. in the case of capital requirements financed by letters of credit, parent company guarantees and bank facilities.

Commitments to provide capital to a business on a contingent basis do not entail the same cost as an upfront capital injection, in that no money actually changes hands and the provider of capital is

<sup>4</sup> The average equity beta of 1.0 converts to an asset beta of 0.7 to 0.8 after accounting for the average level of gearing exhibited by UK listed firms.

not initially required to divert funds from other return-generating investments. As such, there is not the same 'opportunity cost' as there is in an actual equity raise, and it would be wrong to ask customers to pay the cost of equity in full.

However, at the same time, it would also not be right to suggest that commitments to provide contingent capital can be obtained or provided without any cost given that the provider of capital is undoubtedly taking on risk and needs to be compensated for that risk.

Unlike CAPM, we are not aware of any widely accepted model or tool that would enable us to price the contingent capital that sits behind SSE Airtricity's business. However, we have identified the following points of reference:

- suppliers have previously informed the Utility Regulator that the costs they have paid for letters of credit issued by banks can work out to up to 2% of the amount of credit offered;
- SSE Airtricity has claimed a cost of 0.65% for a parent company guarantee and 0.55% for a letter of credit;
- FES and Power NI put forward costing of 2% to 3% in their submissions to the SPC25 and SPC27 price reviews;
- in the Utility Regulator's recent reviews of SONI's price controls, the regulator allowed for a 2.5% return on the parent company guarantee that SONI has procured from its shareholders, EirGrid;
- the CMA priced letters of credit and other contingent capital at 2% in its GB energy market inquiry;<sup>5</sup> and
- the CMA has also identified that the fees charged by trading intermediaries to take on upstream purchasing risks are quite small. The relevant numbers are redacted from the CMA's published report, but the text makes it clear that the amounts involved are "significantly" lower than the full cost of capital.<sup>6</sup>

This does not provide a definitive answer to the question: what is the cost of contingent capital? But the evidence does suggest that SSE Airtricity's 0.65% and 0.55% claims are by no means unreasonable.

We therefore make only one small change to the calculations in Baringa's report. Specifically, we cost the explicit risk buffer in SSE Airtricity's submitted capital base (i.e. the catch-all provision sized at 2% of turnover) at 2% to recognise the contingent nature of this capital. This costing is consistent with the approach that the Utility Regulator has taken in previous price reviews, including the 2016 review of SSE Airtricity's margin.

## **5.5 Amounts recoverable elsewhere**

The Utility Regulator has informed us that the costs of SSE Airtricity's parent company guarantee and letter of credit will be covered via the Gt term in SSE Airtricity's price control. We must therefore deduct the amount of £0.51m from our Mt margin calculation.

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<sup>5</sup> CMA (2016), Energy market investigation: final report, appendix 9.10, para 139.

<sup>6</sup> CMA (2015), Energy market investigation: provisional findings report, appendix 10.3, para 91.

## 5.6 Overall margin calculation

We showed in table 3 that SSE Airtricity requested a required margin of 2.37%. The preceding analysis requires us to make a number of adjustments to SSE Airtricity's numbers. Specifically, we think we need to:

- remove the claim for an intangible asset in respect of the company's current customer book (see section 5.1.2);
- remove the cost of the billing system, on the grounds that efficient costs have been fully reimbursed in previous tariff years (see section 5.1.3);
- set the cost of equity at 10.6% (see section 5.3); and
- provide for a contingent cost of capital for the final risk buffer in SSE Airtricity's submitted capital base (see section 5.4).

Table 7 makes these corrections.

**Table 7: Revised margin computation**

	<u>Capital amount</u>	<u>Cost</u>	<b>Total</b>
Fixed assets (staff equipment)	£0.5m	10.6%	£0.05m
Working capital	£5.9m	10.6%	£0.63m
Collateral (gas)	£13.5m	0.65%	£0.09m
Collateral (network PCG)	£33.1m	0.65%	£0.22m
Collateral network (LOC)	£37.5m	0.55%	£0.21m
Standby capital (cash)	£3.1m	10.6%	£0.33m
Standby capital (bank facility)	£7.8m	4.75%	£0.37m
Standby risk capital	£2.9m	2.0%	£0.06m
<b>Required margin</b>			<b>£1.94m</b>
To be recovered via $G_t$			(£0.51m)
<b>To be recovered via <math>M_t</math> (A)</b>			<b>£1.43m</b>
Forecast revenues (B)			£142m
<b>% profit margin (i.e. A / B )</b>			<b>1.0%</b>

The final row of the table suggests that, on the basis of the evidence that SSE Airtricity has submitted, a margin of turnover of approximately 1% may be sufficient to enable SSE Airtricity to provide a fair return to the providers of forecast actual and contingent capital.

## 5.7 Cross checks

We can cross-check this recommendation in the following way.

### FES' SPC27 submission

FES in its submission to the SPC27 process sought a margin of 3.0%.

In an April 2026 paper, we found that a capital base x cost of capital calculation, when properly constructed, pointed instead to a margin of only 1.5%.

### Cross-check to current margin

Looking back to the calculations that we put forward in 2016, and comparing to the new analysis set out in this paper:

- SSE Airtricity's projected regulated turnover is approximately two times higher than 2016 forecasts;
- SSE Airtricity's capital requirement has increased by more than two times; and
- the estimated cost of capital has remained broadly unchanged.

These things together suggest that the required margin, when expressed as a percentage of turnover, ought to be higher than a decade ago. This is not apparent in the above figures because SSE Airtricity has in this review tabled a materially lower costing for its parent company guarantee and letter of credit (i.e. 0.65%/0.55% vs 2% previously).

#### Cross-check to Ofgem's GB margin

Ofgem in 2023 increased its allowed margin within the GB energy price cap from 1.9% to an indicative, projected value of 2.4%.

This was driven primarily by an increase in Ofgem's estimate of the GB suppliers' cost of capital from 10% to 12.2%. Had Ofgem left its estimate of asset beta unchanged, there would have been a small reduction in the calculated percentage margin requirement.

#### Cross check to NI electricity supply margin

The Utility Regulator in its 2025 review of Power NI's supply price control arrangements held the allowed margin unchanged at 2.2%.

### **5.8 Conclusion**

We note that the Utility Regulator's current margin is 2.0%. Bearing in mind the uncertain nature of many of the figures feeding into our analysis, the evidence coming through from the above cross-checks, and our prior recommendation that FES' and Power NI's allowed margin should be held at the levels that the Utility Regulator has factored into previous controls, we choose not to go as far as to say that the regulator should write our 1.0% calculation into its upcoming price control determination.

Instead, we consider, on balance, that there may be a case for thinking that SSE Airtricity's required margin has not changed significantly since the Utility Regulator's previous reviews and for retaining the 2.0% margin unchanged into the new SPC27 period.