

## **Synopsis of the Approval by the Utility Regulator of the Phoenix Supply Ltd. 1<sup>st</sup> May 2008 Tariff Increase**

### **Process**

The first price control has been undertaken on Phoenix Supply Ltd. by the Northern Ireland Authority for Utility Regulation (the Utility Regulator). The price control was subject to a public consultation<sup>1</sup> on 20<sup>th</sup> February 2008 and the Utility Regulator's subsequent determination<sup>2</sup> was issued on 20<sup>th</sup> April 2008. Phoenix Supply Ltd. then submitted a request for the Utility Regulator's approval for a 28% increase in the tariff from 1<sup>st</sup> May 2008. The Utility Regulator approved the tariff<sup>3</sup> on the basis that it fairly represented the constraints imposed by the price control and that the increase reflected the increase in wholesale gas costs.

To understand the detail of the process by which we considered the tariff please see the papers referenced above.

The Consumer Council and the Department of Enterprise Trade and Investment were consulted and informed at every step of this process.

### **Components of the Price Control**

Phoenix Supply gas tariffs consist of the following elements:

- the cost of gas
- the cost of using Transmission systems and the Phoenix Distribution system
- the operating expenditure of the supply business and supply margin

These components come under the regulatory price control which determines the maximum average tariff that Phoenix Supply can set.

The maximum average tariff has been set at 128.00 ppt (pence per therm) which represents a 28% increase over the previously set tariff of 99.98 ppt as set from 1st April 2007. The tariff as set from 1<sup>st</sup> April 2007 represented a 14.6% reduction over the previous tariff.

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<sup>1</sup> Consultation on Phoenix Supply Price Control, 2007-2008, Initial Determination

<http://ofreg.nics.gov.uk/20%20February%202008.htm>

<sup>2</sup> Phoenix Supply Price Control, 2007 – 2008, Final Determination

<http://ofreg.nics.gov.uk/pdf%20files/Gas%20%202008/2008.04.09%20Final%20Determination%20-%20Published%2015th%20April.pdf>

<sup>3</sup> Phoenix Supply tariffs are available from their website

<http://www.phoenix-natural-gas.com/supply/paying-for-your-gas/our-tariffs/>

## **Cost of Gas**

Gas costs make up approximately 60% of the final tariff. Wholesale gas costs on international markets are currently at very high levels. The price of gas in the 1<sup>st</sup> May 2008 tariff review has risen by 68% since the last tariff review on 1<sup>st</sup> April 2007. The increased gas costs account for 30.4% of the up-lift in the tariff, the difference between that and the 28% actual up-lift being accounted for by the Utility Regulator achieving an overall reduction in other, controllable costs in the price control.

Gas prices in the tariff are set using a forecast based on the forward curve and take into account any forward purchases made by Phoenix Supply. The difference between this forecast and the actual gas purchase costs incurred by Phoenix Supply are then recovered in subsequent tariffs. Thus any over-recovery by Phoenix Supply in any tariff period is clawed back in the following tariff period. An over-recovery by Phoenix Supply in the tariff from 1<sup>st</sup> April 2007 has been factored into the 1<sup>st</sup> May 2008 tariff.

## **Transmission and Distribution Costs**

Transmission costs have been reduced from 8.15 ppt on 1<sup>st</sup> April 2007 to 7.53 ppt on 1<sup>st</sup> May 2008. This is as a result of the Utility Regulator's efforts in supporting the mutualisation of the transmission network, whereby Phoenix Transmission was purchased by PTL, restructuring the company as a debt financed, not for dividend Company Limited by Guarantee. Thus any profits which would have previously have been dividends to shareholders with equity invested are instead returned to customers as a result of the new debt financed entity. Benefits have been passed through to customers by the reduction of the Transmission tariff.

The Utility Regulator has reduced the distribution allowance for Phoenix Distribution from 39.05 ppt to 36.98 ppt. This was as a result of the Distribution Price Control.

## **Tariff Review**

The Utility Regulator wishes to avoid a situation where final tariff prices diverge significantly from wholesale prices. Consequently there will be a mid-year review of gas tariffs if Phoenix Supply demonstrates that the WACOG<sup>4</sup> has diverged from forecast sufficiently to cause a rise in the annual maximum average tariff of greater than 5%. The Utility Regulator retains the flexibility to approve a review at any time if it is regarded to be in customers' interests.

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<sup>4</sup> The WACOG is the weighted average cost of gas for the year based on the forward price of gas and any purchases already made.