



Conclusion of the Utility Regulator's Review of the Phoenix Supply Ltd Tariff

September 2009

Approval by the Utility Regulator of the Phoenix Supply Ltd. Tariff

Summary

In June 2009, in response to falling wholesale gas costs, the Utility Regulator initiated a review of the Phoenix Supply Limited (PSL) tariff for consumers using less than 25,000 therms per annum. This review has resulted in our approval of a 19.0% decrease in PSL's tariff price effective from 1st October 2009 to 31st March 2011 for a period of 18 months. This paper sets out the background to and reasoning behind our decision.

Background

The Utility Regulator has the power to set a maximum average tariff that PSL may set under condition 2.4.1 of the licence which states that

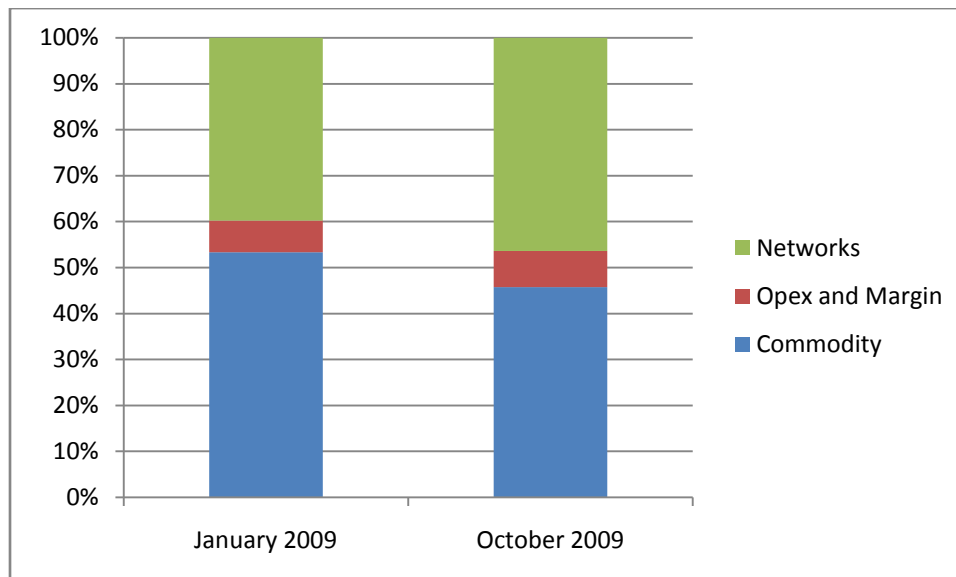
'the Licensee shall take all reasonable steps to secure that in any period of 12 months the average price per therm of gas supplied to such consumers shall not exceed a maximum price to which the Authority has consented'

The maximum average tariff is made up of a number of costs:

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

The following graph shows how these components make up the gas tariff in % terms.

Graph showing make up of tariff in January 09 vs October 09



The commodity cost is one of the largest elements of the tariff comprising almost 53% of the total gas cost in the tariff from January 2009 which decreases to 46% in October 2009. In the

same manner as the January review, gas costs are treated as a pass through item. Therefore all of the savings from price decreases have been passed through to customers. This figure has also included an amount of over recovery PSL have made based on the January forecast gas prices and actual outturn. Again all of this over recovery is being passed back to customers. Some reconciliation from previous periods has been incorporated where estimates were employed.

The treatment of PSL supply opex and margin is set by the Utility Regulator as part of the PSL price control determination:

http://www.niaur.gov.uk/uploads/publications/Phoenix_Supply_Price_Control_Final_Determination_2009.pdf

Network costs are those charged to all suppliers by Phoenix Distribution and are approved by the Utility Regulator on the basis of our distribution price control determination:

http://www.niaur.gov.uk/uploads/publications/PNG_-_Public_Determination.pdf

As a result of these measures the Utility Regulator has approved the maximum average tariff of £0.96 per therm which represents a 19.0% decrease effective from 1st October 2009.

Comparison with most recent tariffs

Effective from date	1 st October 2006	1 st April 2007	1 st May 2008	1 st October 2008	8 th January 2009	1 st October 2009
Approved Tariff (per therm)	£1.18	£1.00	£1.28	£1.53	£1.19	£0.96
% Change		-14.6%	28.0%	19.2%	-22.1%	-19.0%

The process and rationale for agreeing this decrease is detailed below.

Comparison with tariffs in GB and RoI

The table below shows Phoenix Supply Limited in comparison (after the proposed reduction) with other GB and ROI gas suppliers. However suppliers in GB may also choose to reduce their prices in the near future.

Supplier	Standard Credit Customer 15,000 kW usage
Phoenix Supply Limited	£530 from October 2009
Bord Gais (Rol)	£697 from October 2009
Scottish Power (GB)	£692
British Gas (GB)	£681
Npower (GB)	£640
E.On (GB)	£613
SSE (GB)	£600
EDF Energy (GB)	£611

Process

In June 2009 the Utility Regulator initiated a tariff review on the basis that wholesale gas costs continued to drop sufficiently below the level set in the January 2009 tariff to warrant a review. The expectation was that a reduction would be possible if wholesale gas costs, which were volatile, remained low enough at the end of the review period. The outturn was that wholesale gas prices continued to drop during the review period such that an even larger tariff reduction was possible by the end of the review. Thus the tariff was approved on 8th September 2009 to be applied on 1st October 2009.

Given that the next scheduled review was due for April 2010 this review encompassed the period up to that time. Additionally the future costs of gas for the following 12 months to April 2011 were considered in the review. Thus the tariff has been approved from 1st October 2009 to 31st March 2011 for a period of 18 months. However, the Utility Regulator retains the flexibility to approve a review of gas prices at any stage if it is considered to be in the interest of customers.

Rationale

The forward wholesale gas price for the coming winter (winter 2009) has fallen significantly since the last review. Prices have been very volatile over the period but the downward trend has continued and stabilized to a degree which has allowed us to approve the new tariff. Forward wholesale prices for the following winter (winter 2010) have also fallen, but remain somewhat higher than winter 2009. Due to this and the continuing volatility the Utility Regulator considered the gas prices over an 18 month period in order to smooth out these effects and provide gas customers with some stability. Whilst PSL had hedged a large amount of its gas already for the coming winter period we have applied the latest prices to the tariff model for the un-hedged position based on the latest forward curve prices. However we would note that markets remain very volatile and we will continue to monitor gas prices going forward.

Outcome

The Utility Regulator has reviewed the Tariff Review submission provided by Phoenix Supply and reviewed the PSL forecasts against its own market analysis. The Utility Regulator is satisfied that this decrease is justified and therefore approves the tariff of £0.96 per therm effective on 1st October 2009, which represents a decrease of 19.0% over the previous tariff effective on 8th January 2009 of £1.19 per therm.