Phoenix Supply Limited Price Announcement Q and As

Q.1 Why is Phoenix Supply Limited announcing a decrease in gas bills now?

A. This latest tariff review is a mid-year review prompted by the Utility Regulator in response to a fall in wholesale gas prices that will benefit customers this winter.

The Phoenix Supply License (Phoenix) tariff review normally runs for a 12 month period from 1 April each year. However this year's April tariff review was brought forward to January by the Utility Regulator when a 22.1% decrease was announced. This allowed customers to benefit from falling wholesale gas prices during the winter when it would be of most benefit.

Phoenix's tariff review is a function of the Utility Regulator's price control that was subject to a public consultation in 2008 and determined the basis for setting the constituents of the tariff. The tariff review is subject to a consultative process involving the Utility Regulator, Consumer Council and the Department of Enterprise, Trade and Investment.

Q.2 What has caused the decrease in bills?

A. Retail prices are falling chiefly because wholesale gas prices have continued to fall. This is for a number of reasons, including reduced demand due to the economic downturn and increased supply due to enhanced capacity to import liquid natural gas into GB. The wholesale gas price currently accounts for approximately 53% of the total cost of the domestic price of gas. The remaining components of the tariff are transmission tariff, distribution tariff, supply operating expenditure and the allowed profit margin.

The current regulatory price control carried out by the Utility Regulator has ensured that the drop in wholesale gas prices is fully passed on to the customer.

Q.3 Do we pay more for our gas in Northern Ireland than other parts of the UK or the Republic of Ireland? If so, why?

A. Prices in Northern Ireland tend to be higher than in GB, for a variety of reasons. However, the table below shows Phoenix in comparison (after the proposed reduction) with other GB and ROI gas suppliers. It also shows that current price differentials are an exception to this rule, with Phoenix prices among the lowest. This unusual situation is a result of Northern Ireland regulation reacting first to wholesale price movements, and we expect that 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 (RoI)	£697 from October 2009
Scottish Power (GB)	£692
British Gas (GB)	£681
Npower (GB)	£640
E.On (GB)	£613
EDF Energy (GB)	£611
SSE (GB)	£600

Table correct at September 2009

There are several reasons why Northern Ireland gas prices tend to be higher than GB. Northern Ireland's gas distribution and transmission network was newly developed from 1996, which has resulted in higher network charges than in GB to pay for the new infrastructure. In addition, gas is transported to Northern Ireland across the interconnector from Scotland.

Q.4 What does the Utility Regulator do to make sure that gas bills are as low as possible?

A. The Utility Regulator acts on behalf of consumers to ensure prices are as low as they can be, whilst ensuring the supplier can make the necessary investment for the future.

The Utility Regulator has carefully reviewed each of the cost elements within the tariff and is satisfied that the decrease is appropriate. The decrease that will come into affect on 1 October 2009 will bring prices back to around 2006 levels.

Effective from date	1 October 2006	1 April 2007	1 May 2008	1 October 2008	8 January 2009	1 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 Utility Regulator also imposes regulatory limits through its price control to keep costs down. This includes limits on the gas company's profit margin. The allowed profit margin for Phoenix, also subject to the regulatory price control, is 1.5% which is significantly lower than comparable suppliers in GB. (GB margins would typically average over time in excess of 5%).

Q.5 When are we going to get competition for Phoenix Supply Limited?

A. Although there is competition in the large business user sector there is currently no competition in the domestic market. However, the price control carried out by the Utility Regulator acts as a proxy for competition, serving to keep costs and the suppliers' profit margin low.

Notwithstanding the Utility Regulator's regulatory scrutiny; further steps have been taken to encourage competition. Internally, a dedicated retail team has been established to drive forward work on encouraging competition. More widely, Retail Gas Competition is currently being looked at by the Utility Regulator on an all island basis as part of the Common Arrangements for Gas Retail work stream.