Phoenix Supply Limited Price Announcement Q and As

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

The Phoenix Supply Ltd (PSL) tariff review runs for a 12 month period from 1 April each year, however an in-year review is also carried out in October to ensure consumer bills reflect actual gas costs. In addition, the process also contains provision to review the tariff if the price of wholesale gas changes significantly.

The tariff review is subject to a consultative process involving the Utility Regulator, PSL, Consumer Council and the Department of Enterprise, Trade and Investment.

Q.2 Do we pay more for our gas in Northern Ireland than other parts of the UK or the Republic of Ireland? If so, why?

Prices in Northern Ireland should fundamentally be higher than in GB and there are several reasons for this. 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.

However, from approximately November 2009 until April 2011, the PSL tariff was lower than the GB average standard tariff. Following the price decrease of 8.5%, PSL's tariff will be just below the average standard tariff in GB.

In comparison with Bord Gais tariffs in RoI, PSL will be around 10% lower following the latest price decrease.

Q.3 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 and that prices reflect the costs of providing the gas supply, whilst ensuring the supplier can make the necessary investment for the future.

Following our scrutiny of the cost elements, we set a maximum tariff level which PSL can charge its customers. We have carefully reviewed each of the cost elements within the tariff and with the decrease in wholesale gas costs, are satisfied that a reduction of 8.5% is justified.

We also impose regulatory limits through PSL's price control to keep costs down. This includes limits on the gas company's profit margin. The allowed profit margin for PSL, 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 the region of 8%). Profit is not guaranteed either, as it relies on the company running an efficient business.

Q.4 Is there any further competition expected in the gas market?

A. We continue to be pro-active in supporting the development of competition in the gas market, and have taken steps to ensure that customers can make a choice (through switching).

The domestic gas market in the Greater Belfast area has been open to competition since January 1 2007, with a new supplier entering the market in November 2010. We will continue to work with the energy industry to encourage competition and remove barriers to entry into the gas market.

Q.5 If wholesale gas prices fall, will the tariff be reduced?

A. Yes. We continually monitor the costs of wholesale gas and any changes in these costs that could result in a 5% change in the tariff triggers a price review as set out in the PSL price control. If there are significant downward changes to wholesale gas costs, the Regulator will act to ensure that these are reflected in lower consumer bills.