Utility Regulator
ELECTRICITY GAS WATER

Regulated Entitlement Values

2014 / 15 Tariff Year

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About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland’s electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission	Value and sustainability in energy and water.
Our Vision	We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

Electricity suppliers in Northern Ireland pay a number of regulated charges which they may in turn recover from their consumers. This information paper, which we produce each year, details each regulated charge that make up a portion of electricity bills for both business and domestic consumers. The purpose of the information note is to communicate an explanation of the approved changes which will take effect from 1 October 2014.

The paper covers the tariffs associated with electricity networks, electricity market operation, SEM charges and the PSO levy.

After accounting for volume and inflation forecasts, the network charges have **decreased slightly** while the PSO costs have **decreased significantly**. However the costs associated with the operation of the wholesale market have **increased slightly**.

Audience

Electricity customers, businesses, suppliers and consumer groups.

Consumer impact

This paper provides information on each element of the regulated entitlements which make-up a portion of the cost of electricity paid by business and domestic consumers. The reasons for the changes are discussed within the paper.

Contents

1 Introduction

Electricity suppliers in Northern Ireland pay a number of regulated charges which they may in turn recover from their customers. The Utility Regulator approves Network charges and PSO charges whereas the Single Electricity Market Committee (SEMC) approve SEM charges. In this paper we refer to the approved entitlement which can be recovered over the next tariff year (1 October 2014 -30 September 2015).

Network and PSO charges are collected by: NIE Ltd. (Northern Ireland Electricity Transmission and Distribution (NIE T&D)); and by SONI Ltd. (System Operator Northern Ireland (SONI)), whereas the SEM charges are collected by the Single Electricity Market Operator (SEMO). The purpose of this note is to communicate the approved changes which will take effect from 1 October 2014, together with explanations for these changes.

NIE T&D, SONI and the SEMC create tariffs to collect the entitlements over the forthcoming tariff year, based on cost and consumption forecasts. The changes in regulated entitlement will affect individual customers in different ways. The relevant tariffs are published on the NIE T&D[1], SONI[2] and SEM website[3] which we have referenced in the footnotes below.

This paper has been authored and published before outturn costs have been collected or verified for the tariff year 2013/14 (1 October 2013 – 30 September 2014), therefore, the comparisons made below are between two forecasted revenue entitlements. For the sake of simplicity and transparency we have not updated the 2013/14 forecast from last year[4], however, we have accounted for the latest available information to us, in our forecasts for 2014/15.

In addition, we would add that electricity bills also include other costs, such as: wholesale energy costs; the climate change levy (for businesses only); the carbon reduction commitment; supplier charges; and VAT. The most significant of these other costs is the energy costs, and these will vary greatly between suppliers and customers, largely depending on the timing and extent of hedging contracts.

[1] http://www.nie.co.uk/About-NIE/Regulation/Regulatory-documents
[2] http://www.soni.ltd.uk/InformationCentre/Publications/
[3] http://www.allislandproject.org/en/SEM_overview.aspx
[4] See here: http://www.uregni.gov.uk/uploads/publications/Tariff_Information_Note_-_Aug_2013_-_Final.pdf.

2 Charges regulated by the Utility Regulator

2.1 Northern Ireland network charges

Details of the movements in the maximum amount recoverable from network charges are set out in Table 1 below, but first we make some comments on the individual items which make up the network charges.

Transmission & Distribution Use of System (TUoS/DUoS) charges

The use of system charges are derived from the price controls (and cost/revenue recovery models) put in place for NIE T&D. In 2012, our RP5 price control proposals were rejected by NIE T&D and therefore in April 2013, we referred the matter to the Competition Commission (CC) who have subsequently been replaced by the Competition and Markets Authority (CMA).

We have reflected the CC's final determination[5] in the use of system entitlements from 1 October 2014, including the determination of allowed costs from 1 April 2012. Any amounts which have been over-recovered (or under-recovered) by NIE T&D from 1 April 2012 will be returned to customers over the coming tariff years, but primarily in the 14/15 tariff year.

We are continuing our work on financial modelling, in order to transparently reflect the RP5 final determination and to accurately reflect the RP5 final determinations in the related RP5 licence modifications. The forecasts reflect our best estimate for the 2014/15 tariff year by utilising the approach suggested by the CC that the entitlement for any tariff year (October - September) should be 50% of the entitlement for the two financial years (April - March) which it spans.

NIE T&D recovered more revenue from 1 April 2012 to 31 March 2014 than the CC determined that they 'ought' to have recovered. However the return of these monies to customers is netted by an increase in capital allowances during the rest of the RP5 price control and for some customers, a change in how the costs are recovered.

[5] See here: https://www.gov.uk/cma-cases/northern-ireland-electricity-price-determination.

Specific comments on DUoS charges

Market opening costs will be recovered from the DUoS tariff from 1 October 2014 as per the CC's final determination.

The CC's benchmarked allowances are a downward pressure on DUoS charges, especially from an operational cost point of view. However, the CC also allowed for a very large amount of investment in the electricity network and this causes an upward pressure on DUoS charges.

After accounting for the effects of inflation and volume, the net effect of these factors is that the DUoS entitlement decreases by 1% in real terms on average.[6]

Specific comments on TUoS charges

The underlying cost drivers for this entitlement are on an upward trend due to more investment in renewables and the strengthening of the network to support related renewable loads.

However the over-recovery of revenues in past years has more than off-set these increases.

After accounting for the effects of inflation and volume, the net effect of these factors is that the TUoS tariff decreases by 45% in real terms on average.[6]

System Support Services (SSS) charges

These charges cover the cost of SONI and ancillary services required to operate the transmission system safely and reliably.

On 28 March 2014, the responsibility for transmission planning moved from NIE T&D to SONI. Therefore the corresponding costs are now recovered from SSS charges as opposed to TUoS charges.

Another factor which causes this charge to increase is that the static reserve which was expected to occur on the Moyle interconnector did not materialise.

After accounting for the effects of inflation and volume, the net effect of these factors is that the SSS tariff increases by 22% in real terms on average.[6]

[6] We have included some additional analysis in footnotes 8 & 9 below in order to help quantify the effect of these changes on the final bill.

Collection Agency Income Requirement (CAIR)

The Moyle Interconnector came into service in 2002. Up until tariff year 2012/13, Moyle Interconnector waived its entitlement to recover costs through the tariff as the sales of capacity covered Moyle Interconnector costs. However, since then a shortfall has occurred which has been met through CAIR payments.

Under the terms of its licence, SONI collect the money to cover this and then pass it onto Moyle Interconnector Limited. The amount to be collected in the 2014/15 tariff year is £24 million. A £4 million increase (16% real[6]) on the previous year arises as a result of expected low revenue from auctions due to the cable fault, National Grid line outages in Scotland and expected additional costs, particularly those associated with the cable fault repair programme.

Overall network charges

To summarise: Table 1 below shows that the maximum amount recoverable for network charges will decrease by 4% (real) between 2013/14 and 2014/15. The precise impact on individual customers will depend on various factors including: the consumption profile; consumption quantity; and historical consumption.

Table 1: Northern Ireland network charges

Entitlements per tariff period	**October 2013 - September 2014**	**October 2014 - September 2015**	**% Change (nominal)**	**% Change (real)[7]**
Distribution charges (DUoS)	£ 174 m	£ 181 m	3.8%[8]	-0.8%
Transmission charges (TuoS)	£ 43 m	£ 25 m	-42.3%[8]	-44.8%
Support charges (SSS)	£ 27 m	£ 34 m	27.6%[9]	22.0%
CAIR	£ 20 m	£ 24 m	21.5%[9]	16.2%
Total Network Charges	**£ 264 m**	**£ 264 m**	**-0.0%**	**-4.4%**

[7] This 'real' change accounts for the forecast of two additional factors: (i) inflation; and (ii) electricity volume consumption. Inflation has been estimated by the Office of Budget responsibility at **2.9%** (See here: http://budgetresponsibility.org.uk/pubs/March_2014_EFO_Economy_Supplementary_Tables.xls) (table 1.7, RPI for 2015Q1). Electricity volume consumption has been forecast to increase by NIE T&D by **1.71%**.

[8] To put the DUoS and TUoS changes into context, we would refer to the proportion of the total electricity bill that the DUoS and TUoS charges represent, which, when combined, we estimate at 22% (see page vii here: http://www.uregni.gov.uk/uploads/publications/NI_electricity_network_pricing___5_Aug.pdf) Therefore, assuming all else remains equal, the combined effect (across all customers categories) on final bills is a **1% decrease** (nominal terms) ([{£181m+ £25m} / {£174m+ £43m} -1] * 22%).

[9] To put the SSS and CAIR changes into context, we would refer to the proportion of the total electricity bill that the SSS and CAIR charges represent, which, when combined, we estimate at 4% (see page vii here: http://www.uregni.gov.uk/uploads/publications/NI_electricity_network_pricing___5_Aug.pdf) Therefore, assuming all else remains equal, the combined effect (across all customer categories) on final bills is a **1% increase** (nominal terms) ([{£34m+ £24m} / {£27m+ £20m} -1] * 4%).

2.2 Northern Ireland Public Service Obligation (PSO) charge

Details of the movements in the maximum amount recoverable from PSO charges are set out in Table 2 below, but first we make some comments on the individual items which make up the PSO charges.

Non-Fossil Fuel Obligation (NFFO) /Renewable Output Factor (ROF) charges

The Non-Fossil Fuel Obligation (NFFO) contracts and the associated Renewable Output Factor (ROF) are managed by Power NI. These contracts were put in place to encourage renewable generation prior to the renewable obligation certificates scheme being introduced. These contracts ended in January 2013 so 2013/14 was the last tariff year any costs were incurred for NFFO contracts.

Legacy generation costs

The Power Procurement Business (PPB) has power purchase agreements with the power station owners in Northern Ireland. These contracts were put in place with privatisation of the industry back in 1992. PPB purchase power under the terms of these contracts and then sell this power in the SEM. Any profit or loss is levied on all customers in Northern Ireland via the PSO.

The PPB and the associated generation contracts are forecast to save customers £6 million in the 2014/15[10] tariff year. This compares to a net saving of £3 million forecast for the 2013/14 tariff year. The difference is largely driven by an expected over recovery through the current tariff year.

Market opening costs

This charge is for the capital and operating costs for the IT systems required to facilitate retail competition. As part of the RP5 consultation, it was highlighted that these costs should be moved to the DUoS tariff. The CC agreed and subsequently determined that these costs should be recovered from the DUoS tariff from 1st April 2012. Therefore the reduction in market opening costs recovered via the PSO charges should be considered alongside the increase in the market opening costs being recovered in the DUoS charges as noted above.

Northern Ireland Sustainable Energy Programme (NISEP) costs

A levy is imposed on all demand to fund the Northern Ireland Sustainable Energy

[10] Please note that, as we noted above for the DUoS and TUoS charges, we have changed our approach to calculating the entitlement for the tariff year, such that, the entitlement for any tariff year (October - September) is 50% of the entitlement for the two financial years (April - March) which it spans.

Programme (NISEP). The objective of this programme is to promote energy efficiency with particular regard to vulnerable electricity customers. There is no material difference between the forecasted costs for 2014/15 compared to the forecasted costs for 2013/14. However we have recently published an information notice regarding the NISEP regarding the future of the NISEP.[11]

Overall PSO charges

To summarise: the maximum amount recoverable, under the PSO levy in 2014/15, has reduced by 54% (real) as shown below in Table 2. Note that we do not include percentage changes for the individual items due to their materiality.

Table 2: Northern Ireland PSO charges

	October 2013 - September 2014	October 2014 - September 2015	% Change (nominal)	% Change (real)[12]
NFFO/ROF	£ 1 m	-		
Landbank	£ 0 m	£ 0 m		
Legacy generation costs/income	£ -3 m	£ -6 m		
Market Opening Costs	£ 7 m	-		
NISEP + incentive	£ 9 m	£ 9 m		
K factor (negative = over recovery)	£ 0 m	£ 3 m		
Total PSO charges	**£ 14 m**	**£ 7 m**[13]	-51.5%	-53.6%

[11] See here: http://www.uregni.gov.uk/uploads/publications/NISEP_notification_paper_2.pdf

[12] See note 7 for an explanation of this 'real' change.

[13] To put the total PSO changes into context, we would refer to the proportion of the total electricity bill that the PSO represents, which, we estimate at 2% (see page vii here: http://www.uregni.gov.uk/uploads/publications/NI_electricity_network_pricing___5_Aug.pdf) Therefore, assuming all else remains equal, the combined effect on final bills is a **1% decrease** (nominal terms) ([£7m / £14m -1] * 2%).

3 Charges regulated by the SEM Committee

The SEM Committee regulates certain charges in the all-island electricity market including charges for generation capacity, the operation of the market and market imperfections (or constraints).

Details of the movements in the maximum amount recoverable for SEM charges on an all-island basis are set out in Table 3 below, but first we make some comments on the individual items which make up the SEM charges.

Capacity charges

In the SEM, generators receive a capacity payment as a contribution to fixed investment and operating costs. The total amount is revised annually to reflect the cost of new peaking capacity and the amount of capacity required to meet security standards. Suppliers in turn pay a capacity charge which is profiled monthly.

The total capacity charge for 2014/15 has increased by 2.9%. As shown in the above table this increase is mainly due to inflation.

Imperfection charges

Actual dispatch on the all-island transmission network differs from the optimal dispatch derived for the market schedule. This is because constraints are introduced due to network bottlenecks (including the North-South interconnector) and due to the need for the system operators to maintain reserve for operational security.

The imperfections charge is mainly to cover the cost of the variance between actual dispatch and the unconstrained economic dispatch reflected in the market schedule.

The imperfections entitlement has increased from the current tariff year. This increase has been impacted by correction factor adjustments and changes to the participants' bids and offers in the SEM market. Anticipated savings as a result of expected increased system operator interconnector countertrading has helped offset some of this increase. Further information is available from the allislandproject.org website[14].

Market Operator charge

SEMO incurs operational costs while carrying out its functions and recovers these costs, together with capital related costs including a rate of return, through Market Operator tariffs and fees, which are levied on market participants. To facilitate this recovery of costs, the Market Operator submits proposals on its allowed revenue and the charges required to recover this revenue to the Regulatory Authorities (RAs). The price control started on 1 October 2013 and covers the period from 1 October 2013 to 30 September 2016.

SEMO have submitted their market operator revenue requirement for tariff year 2014/15 which is being reviewed by the Regulatory Authorities for consistency with the 2013-2016 price control decision. Provisionally a decrease of 36% in nominal terms is expected due to adjustments relating to the previous 2010 – 2013 price control. The key adjustment relates to the capital expenditure underspend for the three year period being returned for the benefit of consumers.

[14] http://www.allislandproject.org/en/smo_decision_documents.aspx?article=ab9a4edb-dc65-4bcf-a489-284f8ca10e20

Overall SEM charges

To summarise: the maximum amount recoverable, under the SEM charges in 2014/15, has increased by 4% (real) as shown below in Table 2.

All-island forecast demand for 2014/15 is 33,320 GWh compared to the forecast for 2013/14 of 33,220 GWh, representing an increase of 0.3%. This has the effect of decreasing average unit costs.

Table 3: Charges regulated by the SEM Committee

	October 2013 - September 2014	October 2014 - September 2015	% Change (nominal)	% Change (real)[15]
Capacity charge[16]	€ 556 m	€ 572 m	2.9%	0.0%
Imperfections charge (provisional)	€ 147 m	€ 186 m	27.1%	23.2%
Market operator charge (provisional)	€ 20 m	€ 13 m	-36.1%	-38.1%
Total charges	**€ 723 m**	**€ 771 m**	6.8%	3.7%

[15] Similar to the PSO and use of system entitlements above, this 'real' change accounts for the forecast of two additional factors: (i) inflation; and (ii) electricity volume consumption. Inflation is as per the office of budget responsibility as noted above (**2.9%**). However forecast consumption for the all-island electricity market differs from the Northern Ireland forecast. SEMO have estimated the volume increase at **0.3%** (from 33,220 Gwh to 33,320 Gwh).

Please note that these amounts are forecast in Euros and subsequently the % change excludes the impact of changes in the exchange rate as the effect this will have on final customer prices will vary by supplier and timing of contracts.

[16] The capacity charge is calculated and published on a calendar basis, these numbers have been adjusted to tariff year values for comparison with the other SEM charges.

4 Other costs

Energy

The largest component of electricity bills is the cost of purchasing energy from the wholesale electricity market (the SEM). In order to offer fixed energy prices supplier often enter into forward hedges and final prices between suppliers will vary between suppliers and customers, depending on the extent, timing and duration of hedging contracts.

Whilst the SEM Committee does regulate bidding behaviour in the spot market, the wholesale energy component of bills is not regulated for most customers. In Northern Ireland this component remains regulated for customers (mainly domestic) of the incumbent supplier, Power NI.

Climate Change Levy (for business customers only)

The Climate Change Levy (CCL) was introduced on 1 April 2001. Non-domestic electricity customers pay the levy at a rate of 0.524p/kWh. Electricity from qualifying renewable sources is exempt from the levy. The Utility Regulator issues Levy Exemption Certificates (LECs) as evidence that electricity meets the definition of having been generated from a qualifying renewable source. LECs are issued by the Utility Regulator to generators and are traded with the electricity to suppliers. Suppliers then use the LECs as evidence to HMRC[17] of the amount of qualifying renewable electricity supplied to non-domestic customers.

Supplier costs and margin

Electricity bills will also include a component to cover supplier costs and margin.

VAT

Value added tax (VAT) is applied to electricity at a rate of 5% for average consumption (fewer than 33kWh per day). Above that level of consumption, the standard rate of 20% is applied.

[17] Her Majesty's Revenue & Customs