

# Launch of Buyer's Guides & Tariff Briefing 2010/11

28 June 2010

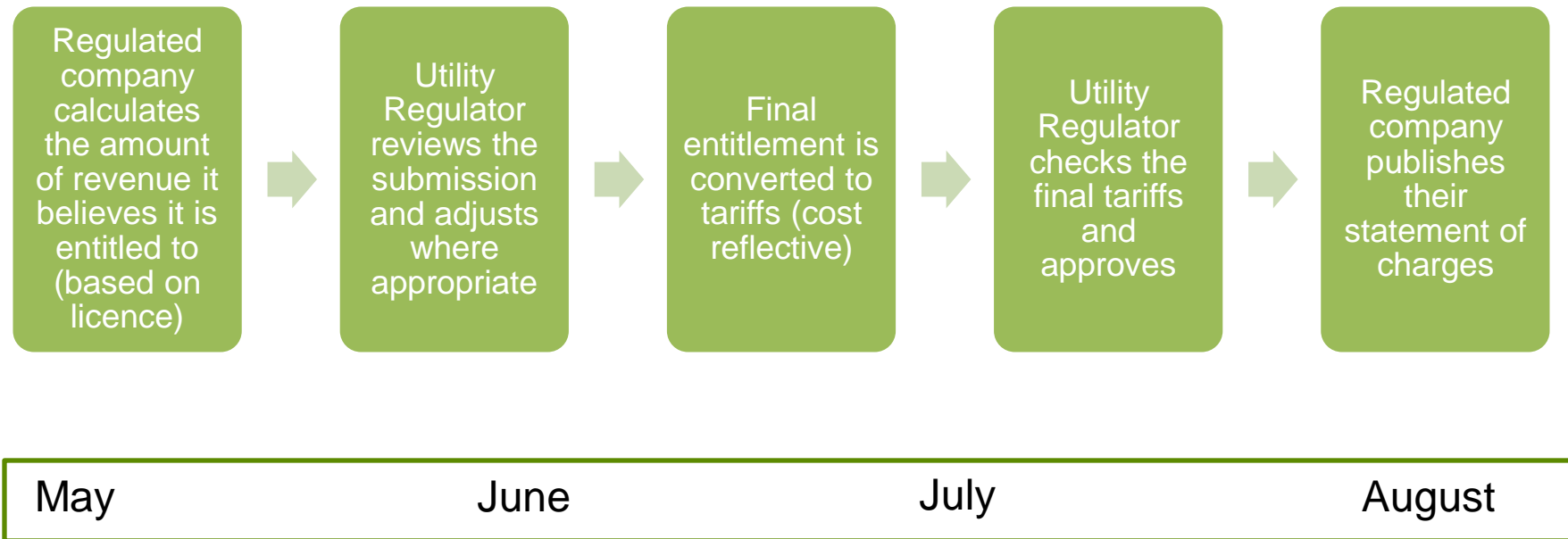
# Purpose of this Briefing

- To provide an early indication of expected regulated tariffs from 1 October 2010
- To outline the process to final tariffs
- To introduce the Buyer's Guides

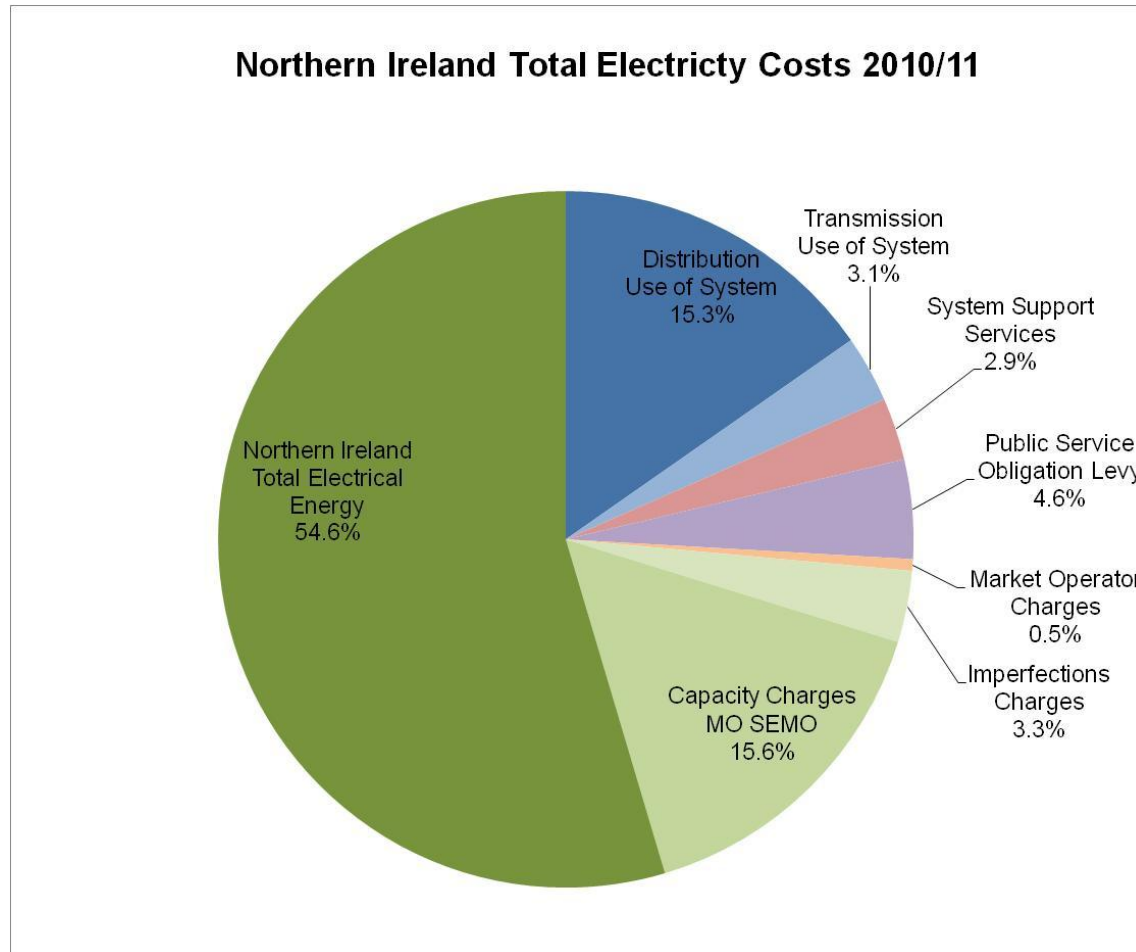
# Agenda

1. Introduction & welcome
2. 2010/11 regulated tariffs
  - PSO
  - Network Tariffs – Distribution / Transmission
  - System Support Services
  - Imperfections Charge
  - Market Operator Charge
  - Capacity Payments
  - Publication of the tariffs
3. The Buyer's Guides
4. Summary

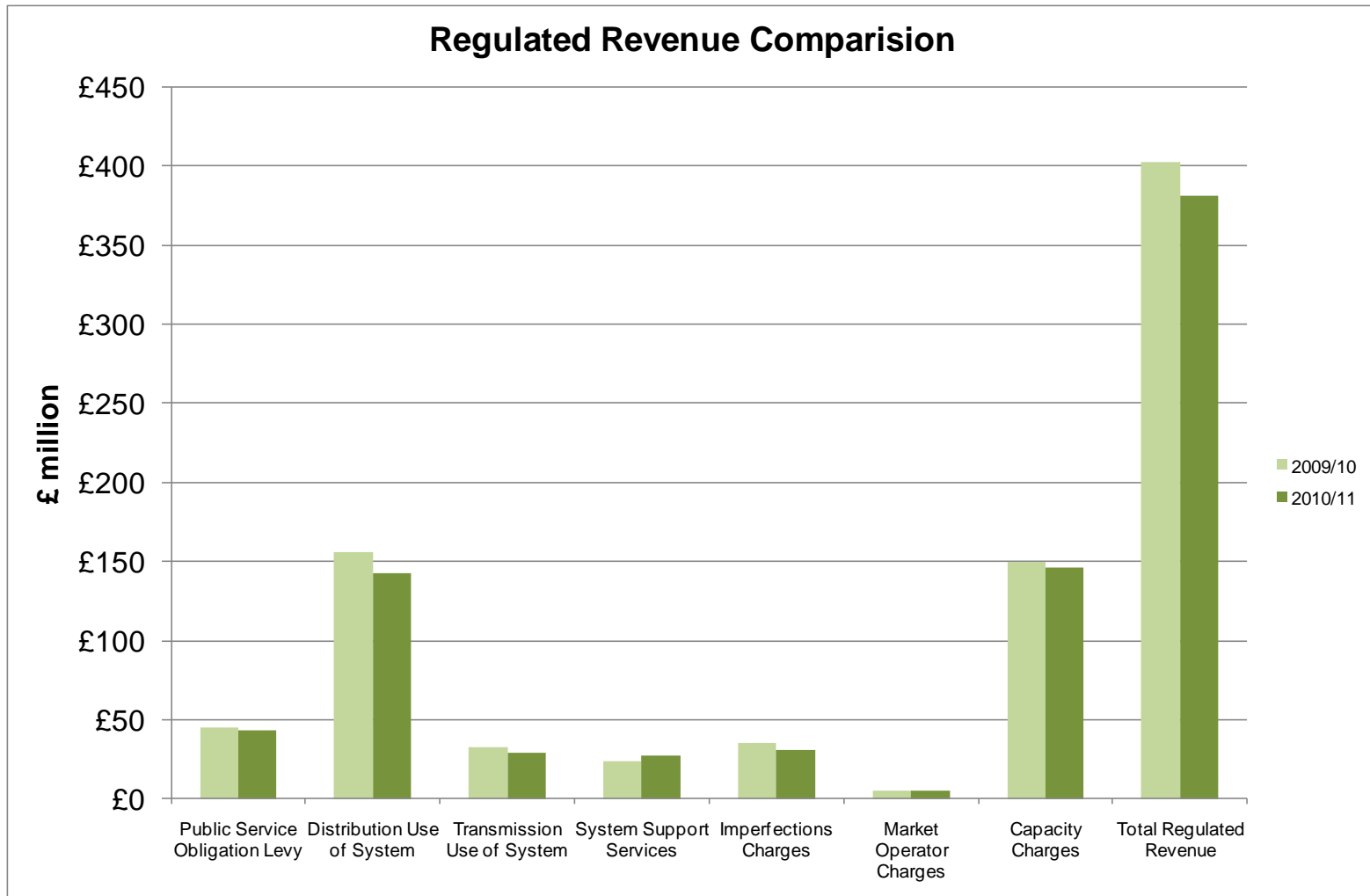
# The Tariff Process



# Forecast 2010/11 Cost Components



# Regulated Revenue Year-On-Year Comparison



Note: the values for 2010/11 are initial forecasts

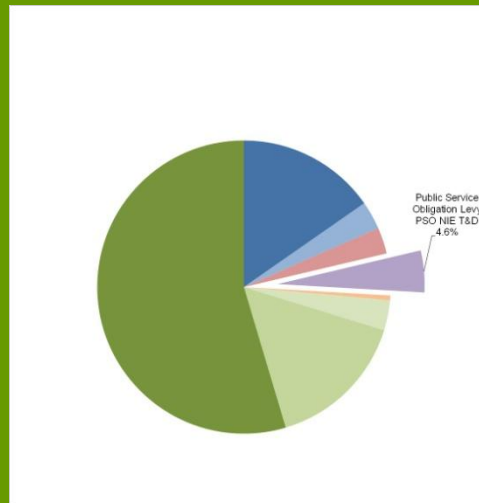
# Key Messages

- Initial forecast shows total regulated revenue down by 5 %
- Regulated wholesale energy costs (directed contracts) down by 7.5%<sup>1</sup>
- Forecast total demand down by 0.8%
- Electricity costs for individual business consumers will vary with:
  - Choice of supplier and hedging of wholesale energy costs
  - Demand profile
- Electricity costs for individual domestic consumers will vary with:
  - Choice of supplier
- Allocation of some costs still under consideration (e.g. market opening costs in PSO)
- Forecast regulated costs still subject to further validation, scrutiny and consultation

<sup>1</sup> regulated energy costs are subject to further auctions and this value is a preliminary estimate

# PSO Levy

Shane Lynch



# PSO Charges

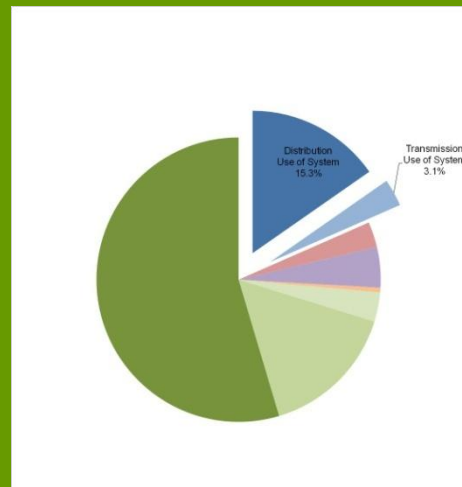
£m	2009/10	2010/11 Forecast
NFFO/ROF	0.43	-1.40
Landbank	0.09	0.09
CBO Allocation	20.73	20.70
Kilroot FGD	23.96	1.40
Legacy Generation Costs/Benefits	-15.10	6.70
Market Costs	7.96	7.10
Energy Efficiency Levy	7.78	8.40
<b>Total</b>	<b>45.85</b>	<b>42.99</b>

# Expected Tariff

- Current estimate for PSO is **decrease of 4%**
- Costs due to differences between Ballylumford generation costs and market income, plus one month of Kilroot
- Would have been £14 million higher if the Kilroot contracts were in place for the entire year
- Charged as a flat rate per kWh across the year
- Tariff will be published in first week August

# Network Tariffs - Overview

Sarah Friedel



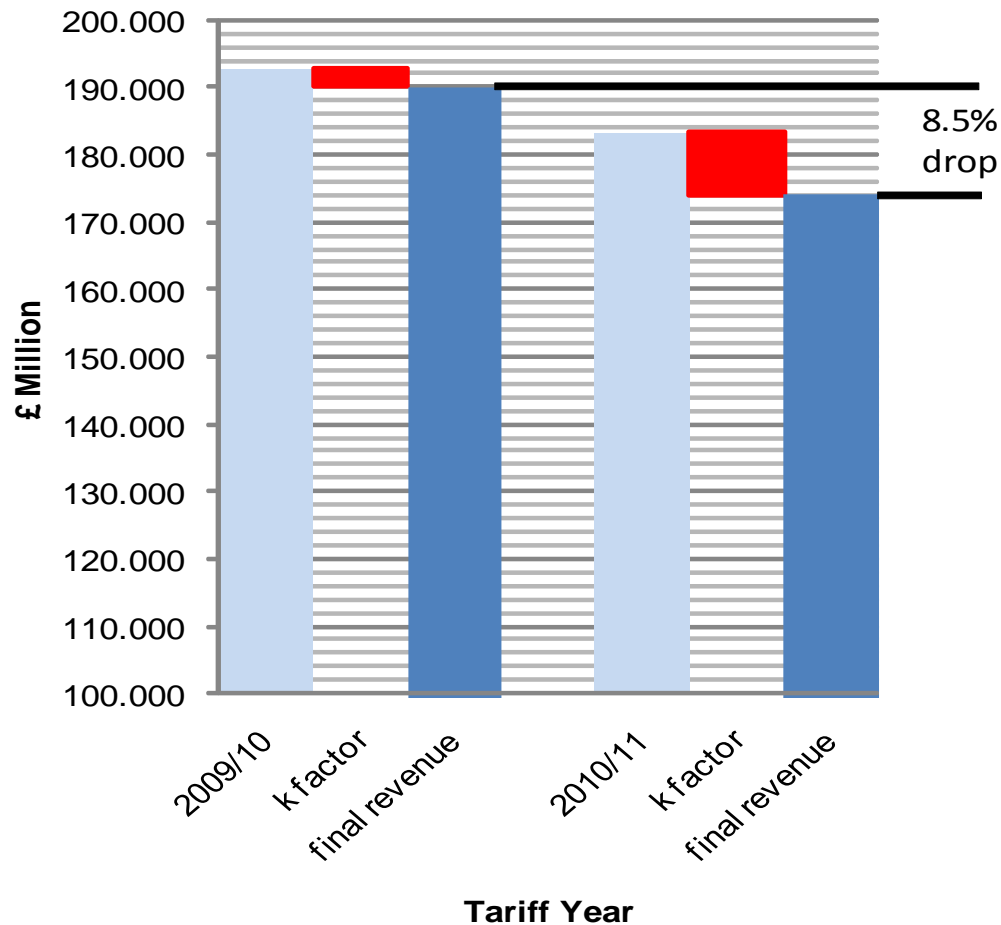
# NIE Transmission & Distribution

- Owns the network infrastructure in Northern Ireland
- Responsible for connecting new customers to the network and for reading meters
- Owns the electricity meters and are responsible for their accuracy
- Is fully separated from NIE Energy and is obliged to treat all suppliers equally

# NIE Regulated Entitlement

## 2010 reduction of 8.5%

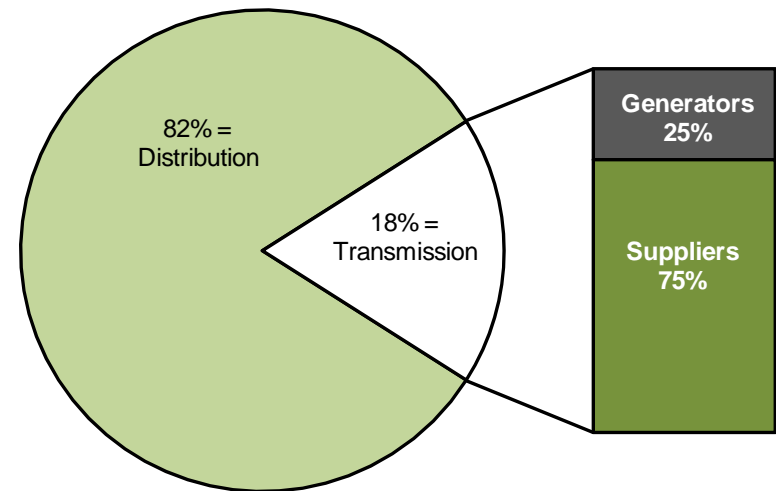
### NIE T&E Revenue



# Split between Transmission & Distribution

- NIE T&D's entitlement is collected via two tariffs
  - Distribution Use of System (DUoS)
  - Transmission Use of System (TUoS)
- NIE T&D charge SONI for using and operating the transmission system (18%)
- NIE T&D operate the distribution system (82%)

**Split of NIE Entitlement  
between Tariffs**



■ 82% = Distribution Costs

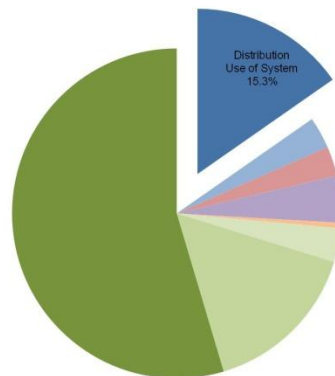
■ 25% of Transmission Costs charged to Generators

■ 75% of Transmission Costs charged to Suppliers

# DUoS

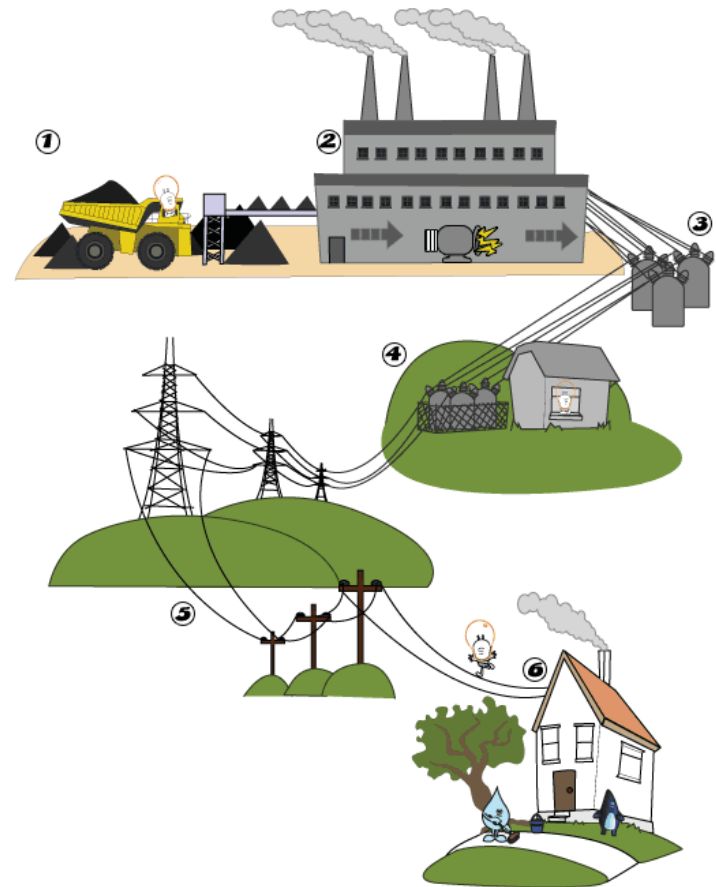
## Distribution Use of System

Sarah Friedel



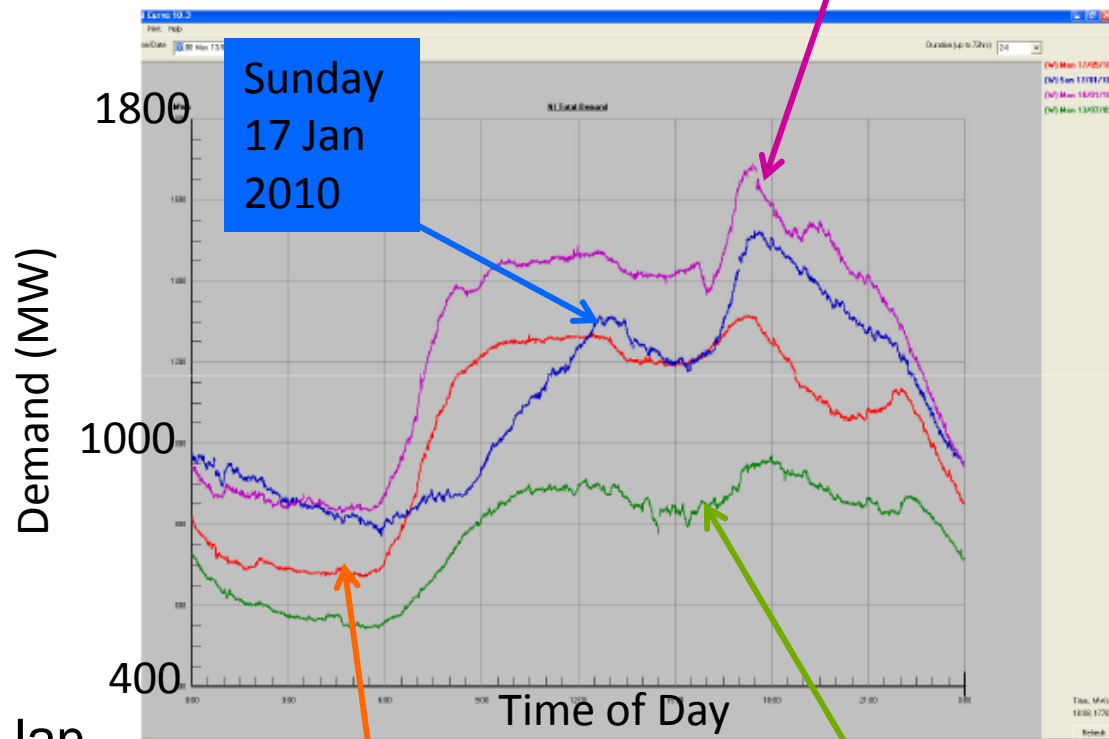
# Tariff Categories

- Amount paid depends on connection voltage
- Lower voltage customers use more of the network, and pay a higher charge
- There are 45 tariff categories
- These are a four digit code (T---) and is shown on either your invoice or contract



# Time of Use Charges

- DUoS tariffs for half hourly metered customers vary by:
  - time of year
  - time of day
- Peak months:
  - Nov & Feb (high)
  - Dec & Jan (highest)
- Time bands:
  - Weekday / weekend
  - Day / evening / night
  - Peak hours (Nov, Dec, Jan & Feb only)



Monday  
18 Jan  
2010

Sunday  
17 Jan  
2010

Monday  
17 May  
2010

Monday  
13 July  
2009

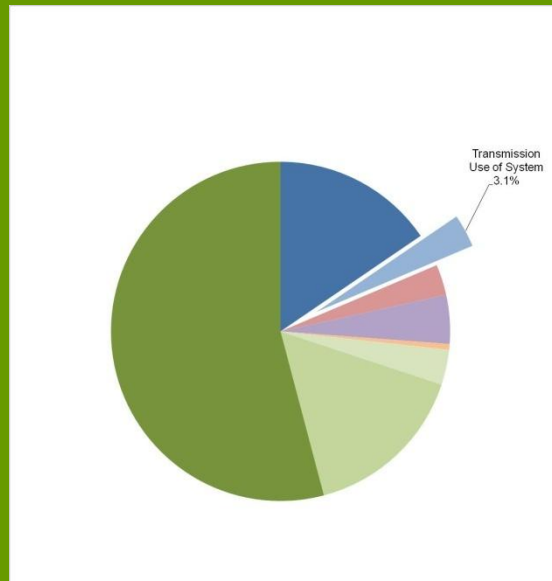
# Expected Tariffs

- Average **decrease** in DUoS is **8.5%** for 2010/11
- This is expected to be followed by an increase in 2011/12. Further review and consultation later this year
- The precise change in tariff for individual customers will depend on:
  - Split between peak and off-peak use
  - Spread of demand during the year

# TUoS

## Transmission Use of System

Sarah Friedel

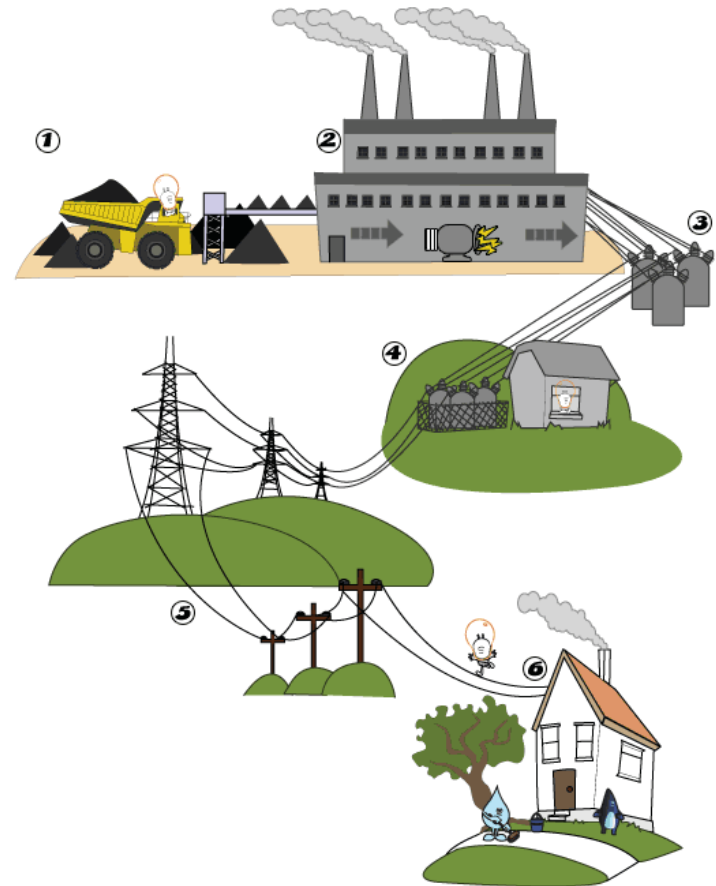


# Revenue to be Recovered

- Model used to calculate the tariffs was inherited by SONI from NIE
- Review currently being carried out on tariff model

# Tariff Bands

- Current charging:
  - Amount paid depends on connection voltage
  - Lower voltage customers pay a higher charge
- Being reviewed as connection voltage does not affect the costs imposed on the transmission system



# Time of Use Charges

- Time of use has an important impact on the TUoS payment
- Time bands currently same as DUoS
- TUoS consultation paper will consider
  - simplifying time bands
  - No additional complication

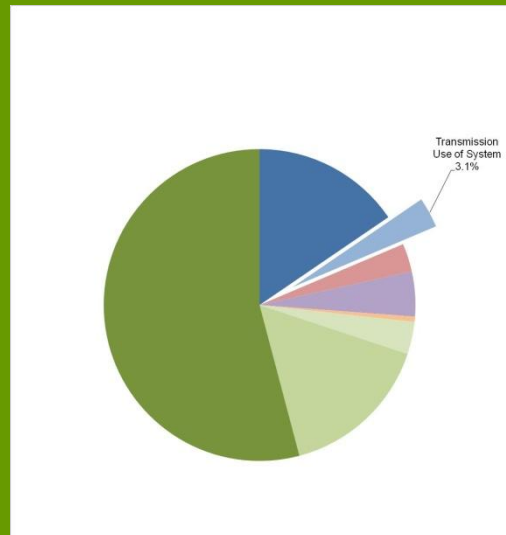
# Expected Tariffs

- Average **decrease** in TUoS is **13%** for 2010/11
- Peak / off peak tariffs will reduce by the similar percentages
- Published in same statement as System Support Services, due to be published in first week August

# SSS

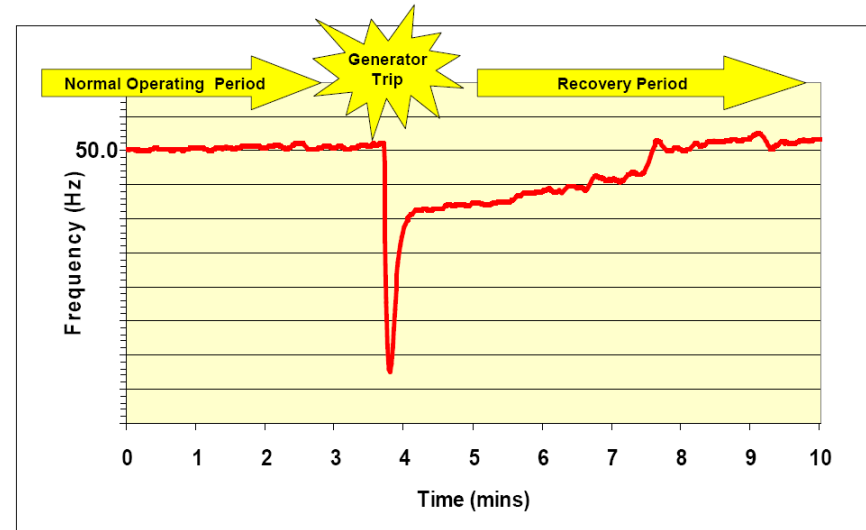
# System Support Services

Sarah Friedel



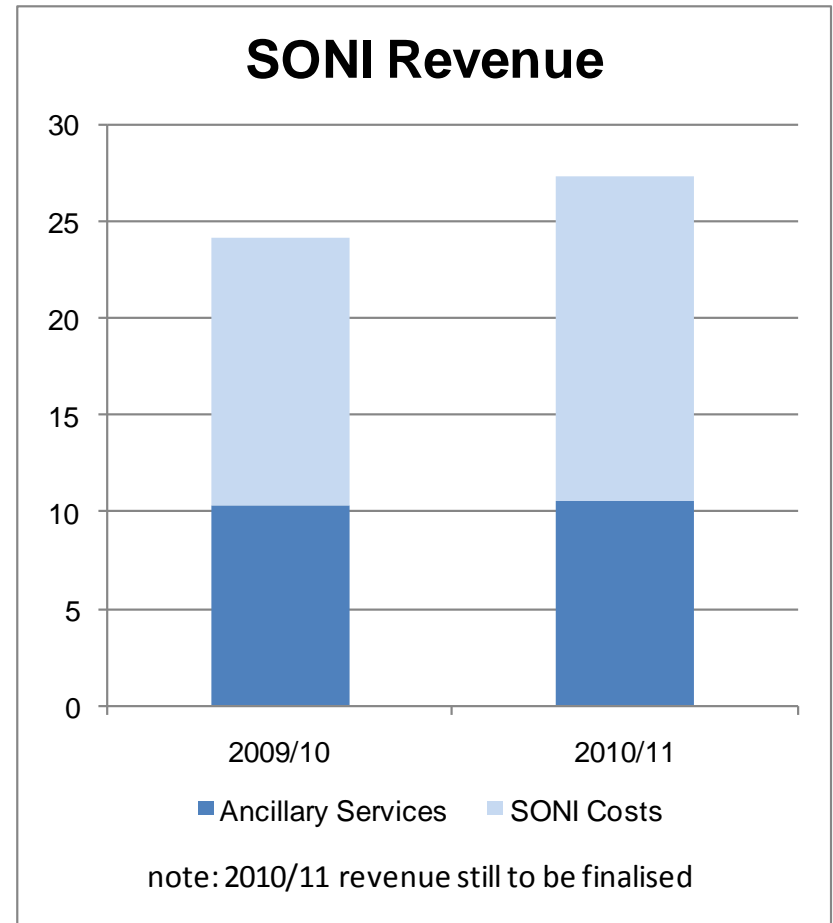
# What are System Support Services?

- The cost of procuring ancillary services
  - Reserve capability
  - Black start capability
  - Reactive power (maintains the voltage)
- SONI's operating costs
  - Price control will be consulted upon in August
- Since February 2010 generators have been charged for tripping and for failing to deliver the contracted services



# Revenue to be Recovered

- Ancillary services minor change this year
- Six generators expected to connect in this year
- Additional workload due to increased number of generation interfaces and intermittent generation

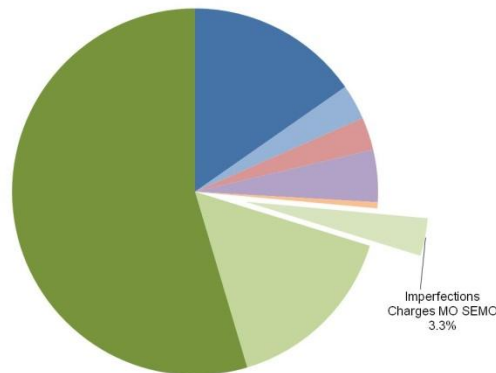


# Expected Tariff

- Current estimate for SSS is **increase** of **12%**
- Charged as a flat rate per kWh across the year
- Tariff will be published first week in August

# Imperfections Charges

Tanya Wishart



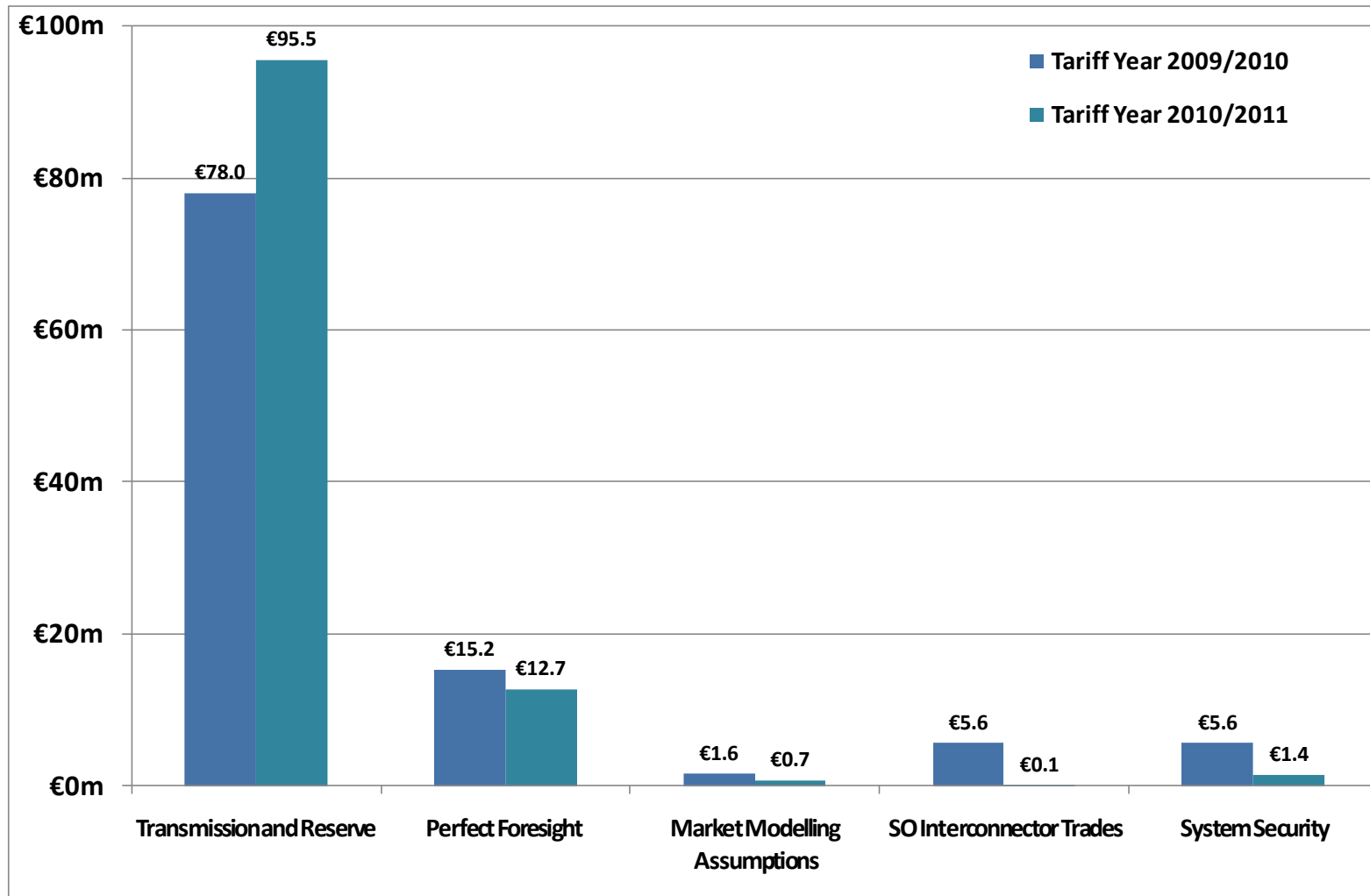
# What are Imperfections Charges?

- Market price for electricity is calculated assuming an ideal world and perfect foresight
- Costs are created through differences between actual generation dispatched by the Transmission System Operators and the market
- These costs need to be covered within tariffs

# Imperfection Charges

- Reasons for imperfection charges can be further described as
  - Transmission and reserve
  - Perfect Foresight
  - Market Modelling Assumptions
  - SO Interconnector Trades
  - System Security

# The Constraint Forecast

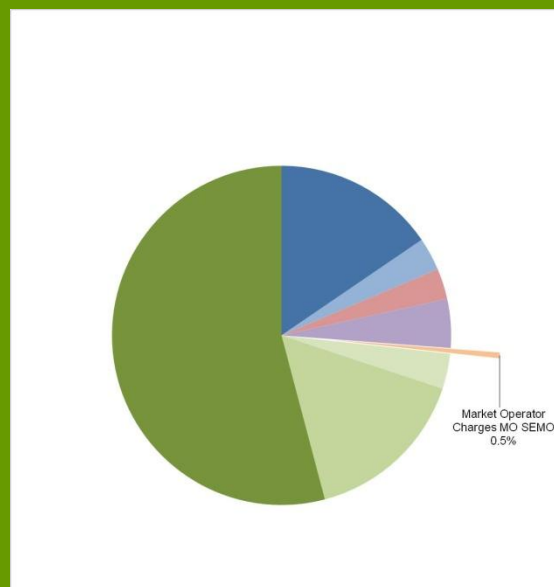


# Expected Tariff

- All Island Cost
- Current estimated Imperfection Cost is €110.5M
- The SEMC is currently consulting on the value imperfection charges. This consultation indicates an increase of 5% for 2010/11
- Charged as a flat rate per kWh across the year
- Tariff will be published first week in August
- Imperfection costs are approximately 4% of the final cost

# Market Operator Charges

Tanya Wishart

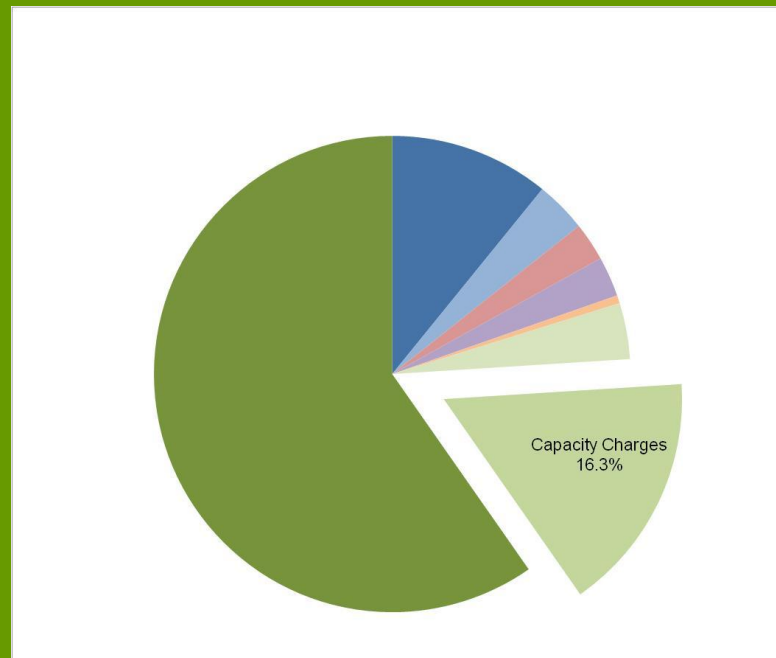


# Market Operator Charges

- All island cost
- Price control to be published in July for consultation
- A small increase is expected
- Charged as a flat rate per kWh across the year
- Will be finalised during first week in September
- Market Operator charges are approximately 0.5% of the final cost

# Capacity Charges

Tanya Wishart



# Why Pay Separately for Capacity

SEM is made up of two 'markets':

Energy ← Used to cover variable cost  
of generators

Capacity Market ← Used to cover (some) fixed  
cost of generators

Two market design was to reduce the potential price spikes  
that can occur in an energy only market

# Capacity Payment Mechanism

- Ensure adequate capacity
- Price stability
- Simplicity
- Efficient signals for long-term investments
- Reduce susceptibility to gaming
- Provide fairness

# Expected Amount for 2010/11

The Proposed BNE fixed cost for 2011 is **€78.13/kW/yr**

The Proposed Capacity Requirement for 2011 is  
**6,902MW**

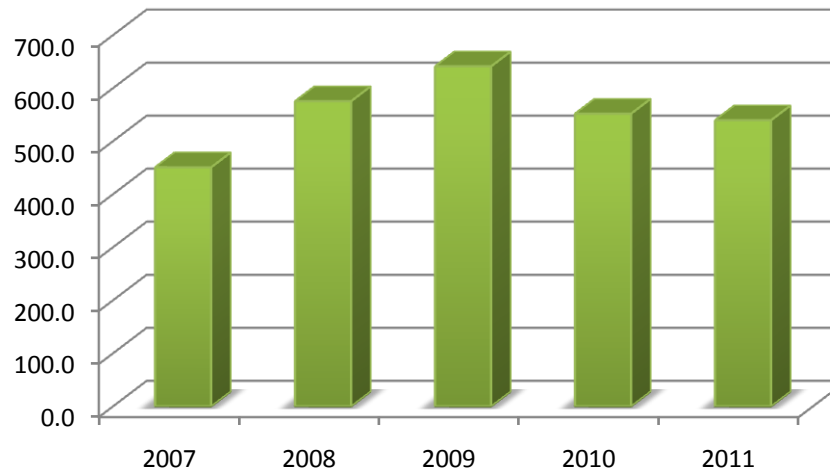
**This results in the ACPS (Capacity Pot) of  
€539M**

This is a reduction of €11.87M (~2.15%) from 2010 (€551M)

# Annual Capacity Payment Sum

	<b>BNE Peaker Fixed Cost (€/kW/yr )</b>	<b>Capacity Requirement (MW)</b>	<b>ACPS (€M)</b>
<b>2007</b>	64.7	6,960	<b>450.5</b>
<b>2008</b>	79.8	7,211	<b>575.2</b>
<b>2009</b>	87.1	7,356	<b>640.9</b>
<b>2010</b>	80.7	6,832	<b>551.6</b>
<b>2011</b>	78.1	6,902	<b>539.3</b>

**ACPS  
(€M)**



# The Capacity Payment Mechanism

- Capacity payments are paid to all available generation on the Island of Ireland throughout the year
- Suppliers purchasing energy through the pool are required to pay capacity costs as well as energy costs
- The SEMC is currently consulting on the value of the pot. This consultation indicates a reduction of 2.15% for 2010/11
- Capacity costs are approximately 16% of the final cost

# Publication of Tariffs

Tanya Wishart

# Where are they published?

- The tariffs are published on each company's website
- This year we will also publish them on the Utility Regulator website
- We will also include a document that pulls together all of the costs applied to each tariff band (e.g. T101, T301) for reference and invoice checking

# The Buyer's Guides

Sarah Friedel

# Background

- Complaints received following tariff process last October
- Complexity and lack of transparency of tariffs and procurement options were raised in meetings with the complainants
- The Buyer's Guides aim to help with understanding
- Two guides produced as SMEs and large users have different procurement options

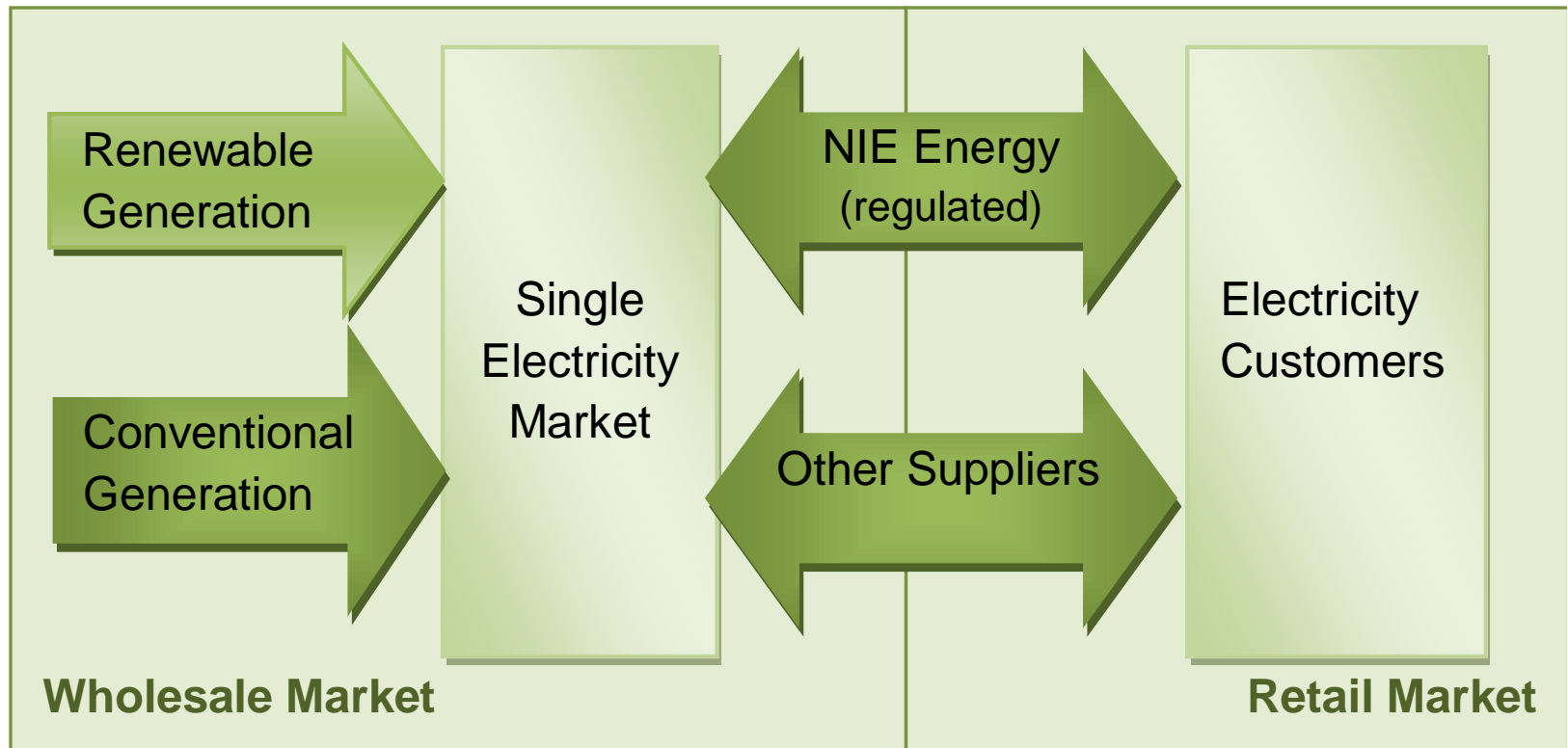
# The Challenges

- Including enough detail without being overly complex
  - Some topics are generalised and miss some exceptional circumstances
  - Assumes a general knowledge of commercial and contractual issues
- Providing a document that is both readable as a whole and easy to find specific items in at a later date
  - Use of bullet points with topics in bold

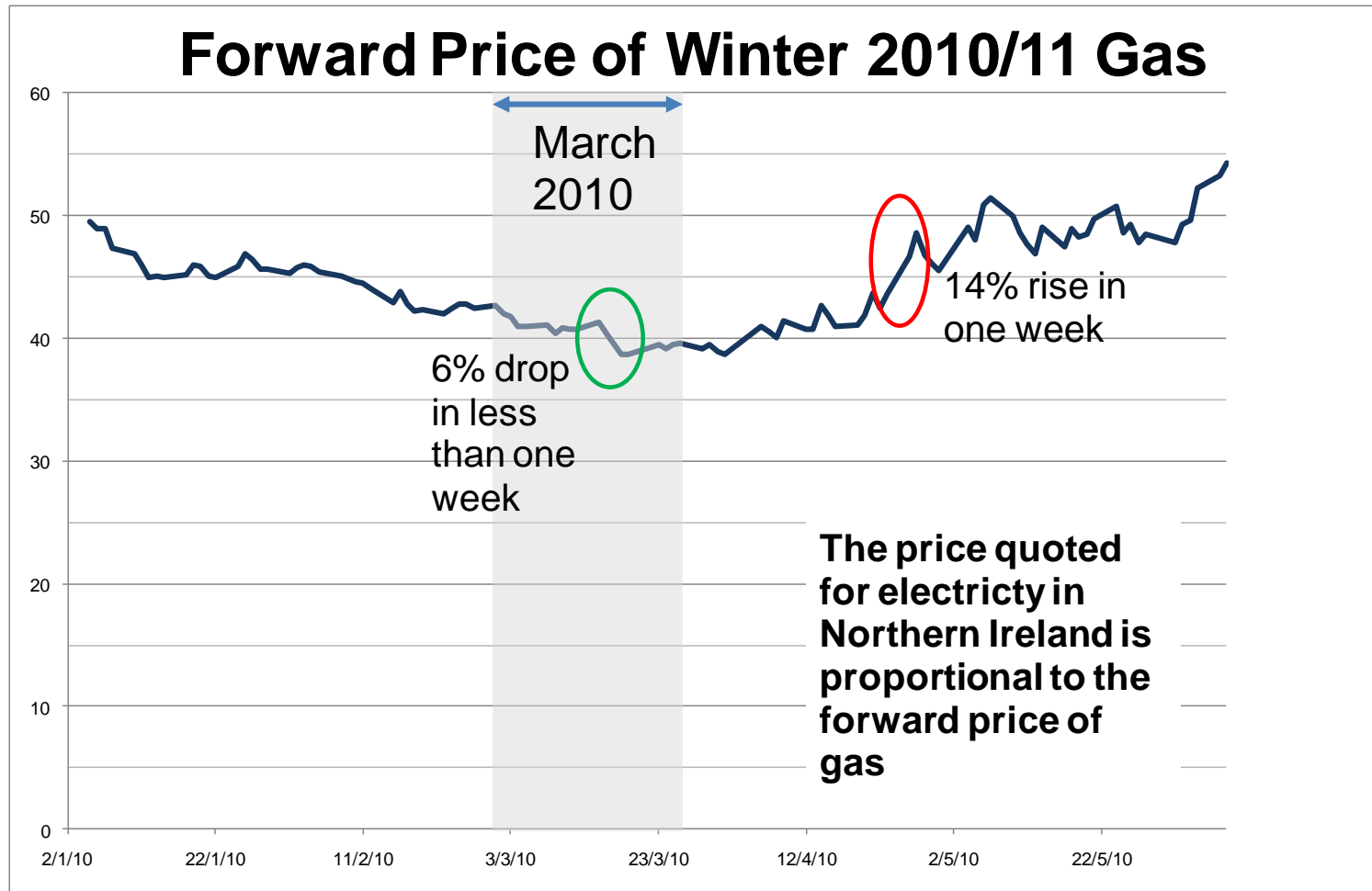
# Intended Audience

- SMEs and large users who are:
  - Comparing complex offers from more than one supplier ;
  - Being offered unbundled tariffs;
  - Confused by the different types of contract on offer; or
  - Want proactively manage their energy budget and need to understand which elements of their electricity price are fixed and which can vary.
- The guides are aimed at **finance directors, energy and procurement managers** who have a background knowledge of general contractual and commercial issues, but need assistance to translate this to the electricity sector

# Introduction to the market structure



# How the price of electricity is calculated



# Types of contract available

	Regulated Tariffs		Discount to Regulated Tariffs	
Consumption less than 150,000 units	<b>Advantages</b> <ul style="list-style-type: none"> <li>✓ Prices are subject to regulatory scrutiny</li> <li>✓ Prices attractive to customers with above average consumption at peak times</li> </ul>	<b>Disadvantages</b> <ul style="list-style-type: none"> <li>✗ Miss out on a potential discount with other suppliers</li> </ul>	<b>Advantages</b> <ul style="list-style-type: none"> <li>✓ Will pay less than the regulated tariff</li> </ul> <p>Note: check all suppliers to ensure best discount.</p>	<b>Disadvantages</b> <ul style="list-style-type: none"> <li>✗ The discount percentage can be changed when the regulated tariffs change</li> </ul>
	Fixed Energy Price		Energy Price Adjustment	
Consumption more than 150,000 units	<b>Advantages</b> <ul style="list-style-type: none"> <li>✓ Price of the energy is known in advance</li> </ul>	<b>Disadvantages</b> <ul style="list-style-type: none"> <li>✗ The price paid is dependant on the market on the day the contract is fixed</li> <li>✗ No benefit if underlying prices fall</li> <li>✗ Does not provide full budget certainty (pass through cost variations)</li> </ul>	<b>Advantages</b> <ul style="list-style-type: none"> <li>✓ Benefit immediately from reductions in wholesale prices</li> <li>✓ Prices reflect the underlying cost drivers which react to the wider economy</li> </ul>	<b>Disadvantages</b> <ul style="list-style-type: none"> <li>✗ Energy price not known at time of consumption</li> <li>✗ Prices can go up as well as down</li> </ul>

**Summary of the advantages and disadvantages of each type of contract**

# Future Updates

- The guides describe the options and tariff methodology for 2010/11
- These may change over time, for example the method of charging for TUoS is due to be consulted upon soon
- The guides will be reviewed and updated as required

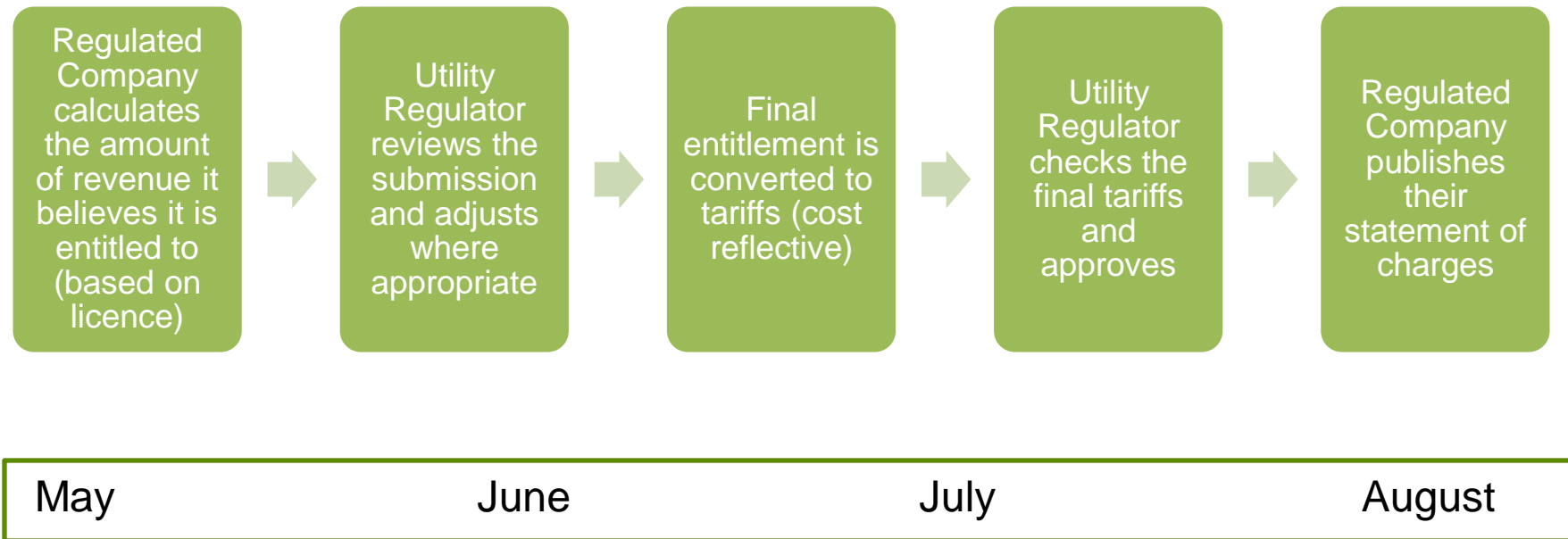
# Summary

Shane Lynch

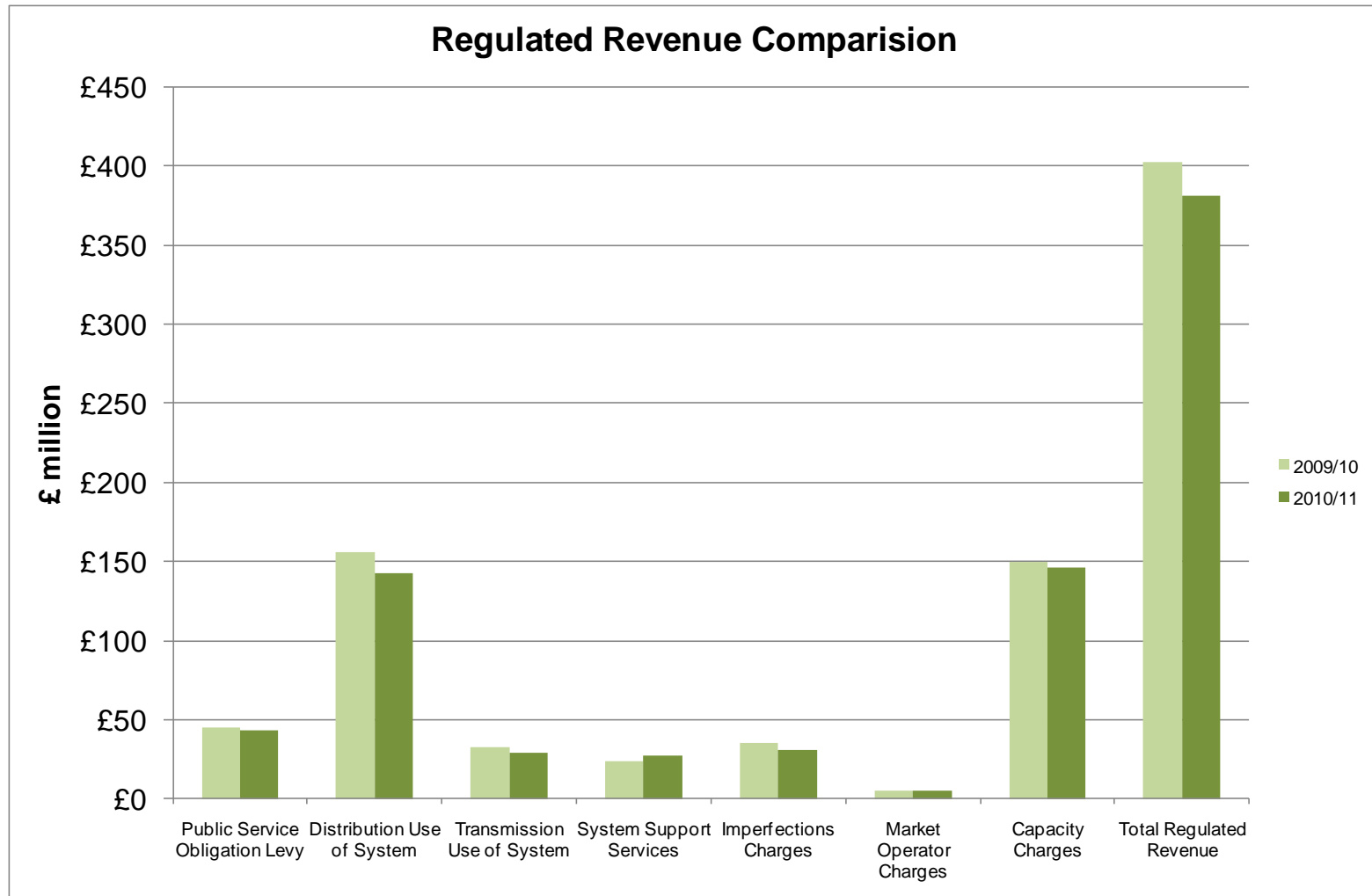
# Next Steps

- STUoS consultation published early July
- Regulated tariffs and information note published end first week in August
- NIE Energy Tariffs for regulated market (<150,000 units per year) published in early September
- Tariffs come into effect on 1 October

# The Tariff Process



# Regulated Revenue Year-On-Year Comparison



# Key Messages

- Initial Forecast shows total regulated revenue down by 5 %
- Regulated wholesale energy costs (directed contracts) down by 7.5%<sup>1</sup>
- Forecast total demand down by 0.8%
- Electricity Costs for individual business consumers will vary with:
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- Allocation of some costs still under consideration (e.g. market opening costs in PSO)
- Forecast regulated costs still subject to further validation, scrutiny and consultation.

<sup>1</sup> regulated energy costs are subject to further auctions and this value is a preliminary estimate

# Questions

[www.uregni.gov.uk](http://www.uregni.gov.uk)

# Demand Forecast

