

Energy Retail Report

2011



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Energy Retail Report 2011

Introduction

This series of annual reports details information of the regulated energy sectors in Northern Ireland. We are extremely grateful to stakeholders, particularly in the regulated companies, who provided much helpful information and explanation for the contents.

As noted in the 2010 report, we intend to keep improving content and coverage in future reports. To that end, we welcome comments and views from readers and stakeholders in terms of how the report might be improved and new data sets or sources that would be useful to add to future editions. Whilst this is not a formal consultation, comments on this report are very welcome and should be sent to:

Elena Ardines
Retail and Social Directorate
Queens House
14 Queen Street
BELFAST
BT1 6ED
elena.ardines@uregni.gov.uk

Purpose of the Document

The primary purpose of the report is to provide readers and stakeholders with readily accessible information on the work of the Utility Regulator (UR) and the energy sectors we regulate. It specifically focuses on the evolution and performance of Northern Ireland retail energy markets. With the arrival of energy supply competition at household level for the first time in Northern Ireland in June 2010, transparency and information around the workings of our energy supply markets is more important than ever. This report is just one way in which we intend to deliver that transparency for stakeholders and customers.

Given the diverse interests of our stakeholders, this report covers much ground within both the regulated gas and electricity sectors, being deliberately wide-ranging in content. It is structured along the following lines:

PART ONE: Background. This part covers general aspects of the Northern Ireland energy sector. It gives a high level vision of how the energy sector functions, who the main companies are and the role of the UR.

PART TWO: Core retail information. In this section we present information and data that will give information to stakeholders interested in Northern Ireland retail markets, and also help us to monitor the behaviour of the main market participants and the functioning of the retail sectors as supply competition emerges.

This section is complemented with the so-called Transparency Reports, which allow closer monitoring of competition development on a quarterly basis.

PART THREE: Key retail work areas. General overview of some key areas/projects we have progressed over the last year or intend to progress through the Retail and Social Directorate within the UR.

Policy Background to Energy Retail Competition Development

In theory effective competition can achieve better outcomes for customers than regulation. The benefits from greater energy retail competition might include:

- **Innovation.** New suppliers, with experience in other markets, are likely to bring to market different products that extend consumer choice.
- **Service standards.** Competitive pressures, combined with effective industry systems, should enable high service standards to be delivered flexibly and cost effectively. Regulation can only effectively set a single standard which might be the average of consumers' wishes, while competition can allow different supplier and product offerings to differentiate service levels, with prices varying accordingly.
- **Downward cost pressures.** In the short term, from creating competitive pressure to reducing costs in supply, and to be more efficient in the procurement of wholesale energy. In the long- term, from dynamic efficiencies and improvements driven by competition at both the firm and sectoral levels.

EU law is explicit about the central role of competition to deliver consumer benefit. EU packages of energy legislation require Member States to achieve a “competitive, secure and environmentally sustainable market”. Energy Directives¹ continue the pursuit of effective competition as an EU-wide policy goal and focus also on consumer rights and roles within retail markets *‘in order to allow consumers to take full advantage of the opportunities of a liberalised internal market’* in electricity and natural gas.

Following all the above, we have actively pursued a policy of creating a fertile environment for greater electricity and gas supply² competition to emerge, particularly in market sectors where competition has been absent (households).

The statutory remit given to us places a high value on competition as a means to deliver consumer benefits. Competition is a key feature, particularly in electricity where it is the UR's primary statutory objective ‘to protect the interests of consumers wherever appropriate by promoting effective competition’.

Consumer preferences also drive our policy. We have researched on consumers' attitudes towards competition, and collected evidence that Northern Ireland consumers would like to have more choice of their energy supplier.

Beyond these policy drivers, the current situation is that whilst there is a significant level of competition in both electricity and gas markets for business customers, household-level customers until recently have had no choice of electricity and gas suppliers.

In the electricity sector this situation changed in June 2010, when Airtricity entered the domestic supply market. After that, in July 2011 Budget Energy has also entered the domestic electricity market.

The gas market in the Greater Belfast and Larne area has been open to competition since 2007 for all customers. In this distribution licensed area there are currently four active gas suppliers in the non-domestic sector: Phoenix Supply Limited (PSL), firmus energy, Energia and VAYU.

¹ Directive 2009/72/EC concerning common rules for the internal market in electricity; and Directive 2009/73/EC concerning common rules for the internal market in natural gas.

² The UR currently regulates the electricity and natural gas supply markets; not the home heating oil market.

Competition in the domestic sector in this area started in November 2010, with firmus entering the Phoenix Natural Gas distribution area.

For the ten towns³ connected to the gas network outside of the Greater Belfast and Larne area, firmus energy retains the exclusive rights to supply gas to all customers.

Table 1 Energy Competition Opening

Electricity		Gas (Greater Belfast and Larne area)	
Domestic Credit	June 10: Airtricity entry. June 11: Budget Energy entry.	Domestic	Nov 10: firmus entered this market segment.
Domestic Keypad	May 11: Airtricity entered this market segment. June 11: Budget Energy entry.	I&C < 2,500	Four active gas suppliers since 2007: Phoenix Supply Limited (PSL), firmus energy, Energia, VAYU.
SME < 70 kVA	Industrial electricity customers become eligible to change supplier from 1999. From 2005, small and medium businesses become eligible too.	I&C between 2,500 and 25,000	
SME > 70 kVA		I&C between 25,000 and 75,000	
LEU > 1 MW		I&C > 75,000	
		Gas (10 Towns) *	
		Domestic and small users	Apr 2015
		Large Users	Oct 2012

* http://www.uregni.gov.uk/uploads/publications/2011-02-21_Decision_paper_firmus_exclusivity.pdf

This has been a welcome and ground-breaking development, and we are hopeful of further entry into our energy retail markets by other suppliers in the short to medium term.

However, to future policy development, we believe that regulatory frameworks should remain in place until we believe that customers in NI can realistically expect to benefit from competition. As we go forward we need to try to ensure that all customers groups benefit from competition and switching opportunities. Where they do not, we need to ensure the regulatory structure continues to offer customer protection to the same level as it affords customers today.

This approach offers some contrasts with Ofgem and CER⁴ regulatory policy, as both Regulatory Authorities have de-price controlled energy suppliers.

In order to understand stakeholders' views on our approach to retail competition, we launched a consultation on the *Regulatory Approach to Energy Supply Competition in Northern Ireland*, so called *Policy Position Paper*⁵. The purpose of the consultation was to know about stakeholders' views on the following aspects:

- How NI retail policy should be influenced by RoI and GB retail policy and vice versa

³ Antrim, Armagh, Ballymena, Ballymoney, Banbridge, Coleraine, Craigavon, L'Derry, Limavady and Newry.

⁴ The Commission for Energy Regulation (CER) is the independent body responsible for overseeing the liberalisation of Ireland's energy sector. www.cer.ie. Roadmap to Deregulation (CER10/058), published by CER in April 2010. It allowed the formerly incumbent supplier to set up its non-domestic prices in the same way as all other suppliers from October 2010. Since April 2011, domestic tariffs will also no longer be subject to price control.

⁵ http://www.uregni.gov.uk/uploads/publications/Retail_markets_-_Policy_Paper.pdf

- The correct balance between customer protection and allowing electricity supply market competition to exist
- If we deem competition to be effective and working in consumers interests, how that might affect regulatory approach

The consultation paper sets up that, for now, in the coming short-run period (three years) we will continue to regulate Power NI and Phoenix Supply Ltd, seeking to ensure efficient cost pass-through and an allowed return that reflects the risk profile faced by the incumbent in the remaining regulated sectors, thus ensuring customers can avail of a regulated tariff.

This paper also establishes that as we go forward, if we judge that customers can be adequately protected by competition, and that all customer groups benefit from competition and switching opportunities, or at least are made no worse off, our approach may change.

PART ONE: BACKGROUND

1. Overview of the electricity and gas sectors

1.1. The Utility Regulator

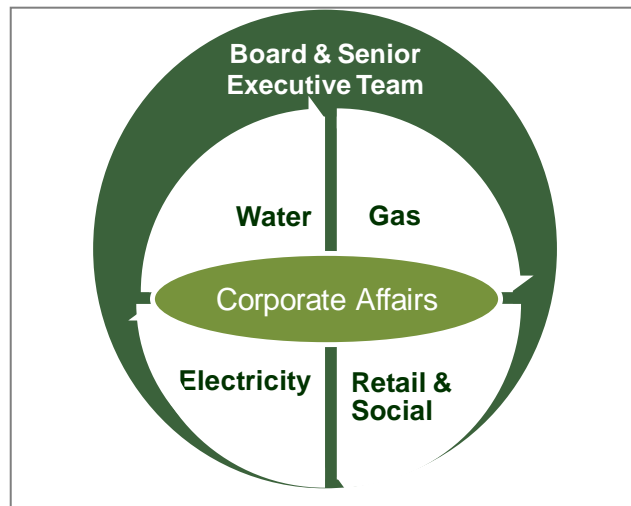
The UR is an independent non-ministerial government department. Our role is to ensure that the utility industries in Northern Ireland are regulated and developed within the strategic policy parameters set out by the Northern Ireland Executive and the relevant legislation. We have a broad range of functions carried out in line with statutory duties set out mainly in the Energy (Northern Ireland) Order 2003 and the Water and Sewerage Services (Northern Ireland) Order 2006.

At the core of our duties and functions is the protection of the interests of present and future water, sewerage, gas and electricity consumers in Northern Ireland.

Our Structure

The current structure of the UR is shown at the figure below.

Figure 1 Utility Regulator's internal structure



The Regulator currently has four regulatory directorates:

- Electricity
- Gas
- Retail and Social
- Water

The directorates are responsible for the economic and consumer service regulation of the three regulated sectors. They are supported by a Corporate Affairs directorate which is responsible mainly for finance and administration; strategy development; legal and communications.

The protection of consumer interests through effective regulation of the three regulated sectors is achieved by:

- Protecting the interests of Northern Ireland consumers by effective and transparent scrutiny and regulation of regulated companies.
- Protecting vulnerable consumers of the regulated companies.
- Ensuring that these companies comply with the relevant legislation and licence obligations.
- Encouraging regulated companies to be more efficient and responsive to consumers.
- Controlling the prices these companies charge to consumers.
- Working to encourage competition in the gas and electricity markets.
- Setting and monitoring standards of service which these companies provide to consumers.
- Acting as an adjudicator on certain consumer complaints, disputes and appeals.
- Carrying out our duties with the environment and sustainability in mind.

There are many similarities in the work issues that we deal with in relation to each of the regulated sectors, and to some degree that allows us to be more efficient and to adopt cross-sectoral thinking and approaches to problems. However, there are also many work issues that arise that are specific to an individual regulated sector. This can be the result of the individuality of the sectors with which we interact; but to a significant degree it is also a symptom of the fact that the maturity of the three sectors in the Northern Ireland context is different.

Statutory Duties

We have a number of principal statutory objectives that we should always keep in mind when facing our work.

Regarding the electricity industry, our statutory duties refer to protecting the interests of consumers of electricity supplied by authorised suppliers. This includes promoting effective competition where appropriate.

In relation to the gas industry, our duties centre in the promotion of the development and maintenance of an efficient, economic and coordinated gas industry in Northern Ireland.

Electricity

Our principal objective when regulating Northern Ireland's electricity industry is to protect the interests of consumers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with the generation, transmission or supply of electricity.

We are therefore responsible for price controlling the operation of the electricity transmission and distribution company (Northern Ireland Electricity - NIE), the former incumbent supplier, Power NI (formerly called NIE Energy Supply) and NIE Power Procurement Business (PPB). Also, we oversee other regulated companies' activities, in order to safeguard the interests of electricity customers.

We also issue licences, subject to the satisfaction of certain criteria, to those who wish to engage in electricity generation or supply. We ensure that these licences are enforced.

A key focus since November 2007 has been the establishment and monitoring of the Single Electricity Market (SEM). The SEM is a single all-island wholesale market for electricity aimed at enhancing security and diversity of supply, encouraging market efficiencies and economies of scale, and promoting greater competition.

In parallel, we have encouraged greater competition at the retail level, with completion of market opening in 2005 for non-domestic customers and in 2007 for the domestic market, followed by the effective start of competition on the domestic market by June 2010.

A significant challenge, both at a Northern Ireland and all-island level, is the further development of effective retail competition particularly for domestic and small business consumers.

To find out more about electricity workstreams, please visit our website: www.uregni.gov.uk.

Gas

In 1992 Bord Gáis Éireann (BGE) built an interconnector between Scotland and Dublin. This made the construction of the Scotland to Northern Ireland Pipeline (SNIP) possible. The SNIP brought gas to Northern Ireland, and since then, there has been a key focus on activities to encourage the growth of the network.

The UR is responsible for regulating Northern Ireland's gas industry. Our principal objective with respect to gas is to promote the development and maintenance of an economic, efficient and co-ordinated gas industry. We also aim to protect the interests of gas consumers with regard to price and quality of service.

Also, as in the electricity sector, we are the issuing body of the licences for conveyance, storage or supply of gas.

Northern Ireland and the Republic of Ireland (RoI) are committed to the development of the Common Arrangements for Gas (CAG) project. This project is designed to bring benefits to all customers on the island. Decision documents and consultation papers related to CAG can be found in www.allislandproject.org.

We are aware of the opportunity to develop the gas industry, and the potential for storage facilities. The harmonisation of the gas industry on an all-island level and the consideration of further network expansion will facilitate this.

To find out more about gas workstreams, please visit our website: www.uregni.gov.uk.

Functions of the Utility Regulator

Our functions originate from a range of domestic and European legislation. The main domestic legislative base for gas and electricity is the Energy Order, Gas Order and Electricity Order^[1].

Also, some of the UR's electricity and gas functions are drawn from both domestic and European regulations, and include the Electricity (Applications for Licences and Extensions of Licences) Regulations (Northern Ireland) 2007.

Examples of functions drawn from legislation are set out below.

^[1] The Energy (Northern Ireland) Order 2003. 2003 No. 419 (N.I. 6). Northern Ireland.
The Gas (Northern Ireland) Order 1996.
The Electricity (Northern Ireland) Order 1992.

Gas

- Grant licences and extensions of licences to authorise the conveyance, storage or supply of gas.
- Modify licences and also implement licence modifications.
- Perform specified functions, concurrently with the OFT, set out under Part 4 of the Enterprise Act⁶ and Part 1 of the Competition Act⁷. These relate to commercial activities connected with the conveyance, storage or supply of gas or to agreements or conduct connected with the conveyance, storage or supply of gas.
- Make references to the Competition Commission.
- Fix maximum charges for reselling gas.
- Provide information, advice and assistance to DETI and the OFT.
- Keep the market under review and collect information about it.
- Grant consent for construction of pipelines and construction works at a gas storage facility.
- Establish a process for the determination of complaints by the UR and determine those complaints within specified timescales.
- Set price controls for Phoenix Supply Ltd., Phoenix Natural gas and firmus energy Ltd. Distribution.
- Publish (as appropriate) calculation methodology for imbalance charges and for final tariffs.
- Approve penalty charges which exceed actual balancing costs incurred and approve charges (if they exist) for provision of information (by TSOs) on balancing status of network users.
- Cooperate with other regulatory authorities, including the European Commission in relation to energy legislation and the Competition Commission.

Electricity

- Grant or modify licences to generate, participate in the transmission and supply of electricity, and to act as the SEM Operator.
- Make references to the Competition Commission.
- Determination of relevant disputes and complaints.
- Invite tenders for further generating capacity and provision of energy efficiency measures to meet a shortfall.
- Make regulations setting standards of performance for suppliers and distributors.
- Set standards of energy efficiency of consumers to be achieved by electricity suppliers.
- Fix maximum prices at which electricity can be resold.
- Issue NI Renewable Obligation Certificates (NIROCs) and issue and register transfer of guarantees of origin.
- Exchange of information functions with the Great Britain regulator.
- Monitor implementation of renewables obligations and compliance by designated electricity suppliers and operators of generating stations.
- Follow any decision taken on behalf of the UR in relation to a SEM matter by the SEM Committee.
- Approve general scheme(s) for the calculation of the total transfer capacity and transmission reliability margin - in relation to the safety, operational and planning standards used and published by TSOs.

⁶ Other than sections 166 and 171.

⁷ Other than sections 31D(1) to (6), 38(1) to (6) and 51.

1.2. Price Controls - A key function in protecting energy consumers

It is argued that effective competition is the best mechanism to protect the interests of consumers. However, there are areas of the gas and electricity industries where companies retain an effective 'natural monopoly' and where it may not be possible to introduce competition. This applies to the transportation of electricity and gas to customers over national and local networks of pipes and wires. Here incentive regulation, such as network price controls, is applied to protect consumers' interests.

The standard price control is normally applied to natural monopoly network businesses (pipes and wires), however, due to lack of competition in certain electricity and gas supply customer categories (including domestic customers), a 'supply' price control is in place in Northern Ireland for the dominant gas (Phoenix Supply Ltd) and electricity (Power NI) supply companies.

The main objectives of a price control are:

- To ensure that monopolies do not abuse their position (i.e. an unregulated monopoly might charge too high prices and/or provide too low level of quality, resulting in poor value for money for consumers).
- To provide companies with a future level of revenue and appropriate incentives to meet their statutory duties and licence obligations.

At the same time, price control regulation provides incentives so companies can:

- Manage and operate their networks in an economic, efficient and co-ordinated manner.
- Offer a good quality of service to customers.
- Invest in their networks in a timely and efficient manner.
- Help ensure that the long-term security of supply is maintained.
- Make any necessary changes to the networks, for example, helping development of distributed generation and increasing reductions in the amount of electricity lost on the distribution networks.

Price control methodology

A price control determines the allowed annual expenditure for the utility company. In order to make this determination, the UR analyses each element of the costs submitted from the company. We take into consideration historic costs, demand forecasts for the period of the control, any changes in the gas or electricity industry, cost drivers and comparisons with GB and RoI. We also consult with the companies, DETI, the CCNI and other interested parties before making a final determination⁸.

The amount of money that a monopoly network business can earn on its regulated business is restricted by a Retail Price Index (RPI) - X price control that is reviewed every few years. It controls prices, not profits, and encourages efficiency within the company. The RPI - X price control takes the retail price index (the rate of inflation) as its benchmark and subtracts X (an efficiency factor) from it. For example, at a time when annual inflation was three per cent, an X of two would allow the company to raise prices by no more than one per cent⁹.

⁸ http://www.uregni.gov.uk/uploads/publications/Notes_-_Gas_price_controls_outcome_080409.pdf

⁹ http://www.ofgem.gov.uk/Media/FactSheets/Documents1/6610-factsheet39_march04.pdf .

The price control also includes incentive mechanisms to encourage companies to deliver what customers require. For example, companies can be rewarded or penalised depending on the quality of service they deliver.

Price controls provide a company with a level of revenue that is adequate to finance an efficient business. This is based on an estimate of the costs companies face in running their business including:

- **Operating expenditure:** this covers the day-to-day costs of running the network, such as staff costs, repairs and maintenance, overhead costs, etc.
- **Capital expenditure:** this covers spending on assets, such as overhead lines, underground cables, etc. The benefits of capital expenditure are expected to last over several years so companies recover these costs over the assumed life of the asset.
- **Financing costs:** this covers the costs in providing a reasonable return to the investors who provide the capital and other financial facilities it requires. The rate of return on investment assets is usually applied through the Weighted Average Cost of Capital (WACC) methodology for transmission price controls, while supply price controls would apply an allow margin on turnover.

<p>In <u>WACC methodology</u> the average of the costs of the sources of financing of a company (basically debt and equity), are weighted by its respective use in the situation of the price controlled company.</p>	<p>The <u>allowed margin on turnover</u> is calculated through benchmarking with the margins obtained by other businesses with similar risk characteristics.</p>
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- **Taxation:** the price control must provide sufficient cash flow to cover the tax liabilities, taking into account, for example, the current rate of corporation tax.

What we price control in the energy sector

In the energy sector we regulate through price control those companies that transport and supply gas and electricity (Power NI, NIE T&D, Phoenix Natural Gas, Phoenix Supply, firmus energy). SEMO and SONI are also price controlled companies.

But not all supply activities are price controlled. As the liberalisation process has evolved, some of these activities have been taken out from the regulatory price control scrutiny, such as the energy supply to larger non domestic customers. However, we believe that, where necessary, regulatory frameworks should remain in place until contestability/competition is firmly evidenced, and until we believe that customers in Northern Ireland can realistically expect to benefit from competition. Therefore, we intend to monitor the whole energy retail market to understand how competition is affecting different sub-sectors of customers.

In the electricity sector, price control remains over all customers using less than 150 MWh/year. For these customers, Power NI, the former incumbent electricity supplier, must offer the same retail tariff in a particular sector of customers.

In the gas sector, price control remains over the domestic sector and industrial and commercial (I&C) customers who consume less than 25,000 therms per annum.

Table 2 Current electricity price controls

Document	Implementation	Link to our website
Power NI Price Control	2011 – 2013	http://www.uregni.gov.uk/uploads/publications/Decision_Paper_for_Power_NI_Price_Control_V1_0.pdf
SEMO Revenue and Tariffs (Consultation Paper)	2010 - 2013	http://www.uregni.gov.uk/uploads/publications/SEM-10-0501.pdf
NIE Energy (PPB) Price Control Decision Paper	2009 - 2012	http://www.uregni.gov.uk/uploads/publications/NIE_Energy_PPB_Price_Control_UTILITY_Regulator_Decision.pdf
NIE T&D Price Control	2007-2012	http://www.uregni.gov.uk/uploads/publications/TD_Final_proposals_Sept_06.pdf
SONI Price Control Decision Paper	2010-2015	http://www.uregni.gov.uk/uploads/publications/SONI_Price_Control_decision_Paper_-_FINAL.pdf

Table 3 Current gas price controls

Document	Implementation	Link to our website
firmus energy Price Control	2009 - 2013	http://www.uregni.gov.uk/uploads/publications/Determination_for_firmus_energy_market_development_review_summary_(2).pdf
Phoenix Supply Price Control	2012 - 2016	Determination to be published in Nov 2011
Phoenix Distribution Price Control	2012 – 2013	Determination to be published in Dec 2011

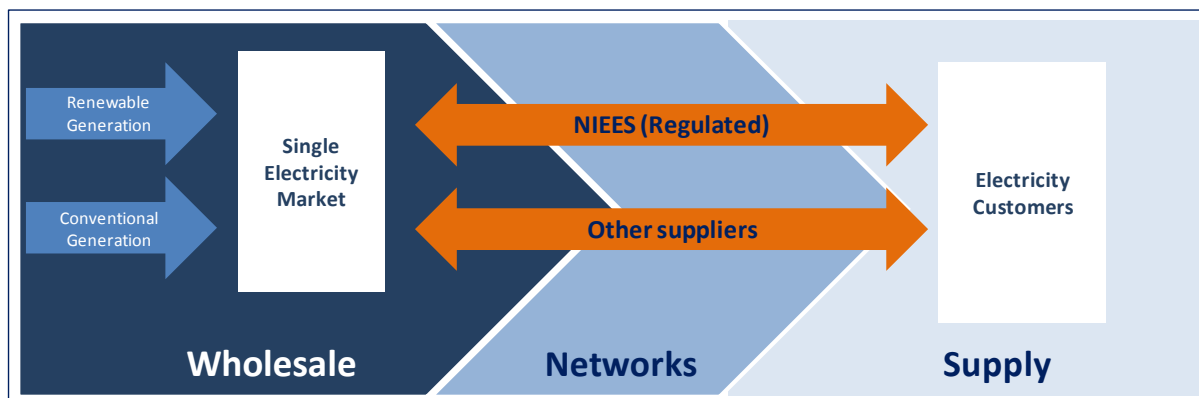
1.3. Structure of the Northern Ireland energy sector

Wholesale market: In the electricity sector, the wholesale market is where the generators and suppliers trade with each other. Since 2007, this has operated on an all-island basis (known as the Single Electricity Market) and generators across the island of Ireland compete with each other for a share of the total demand. Generators with a capacity greater than 10 MW must have a licence to operate and must sell their entire output into the Single Electricity Market. Generators

with a capacity below 10 MW are able to sell their power directly to suppliers and can decide their own production schedule.

Key regulatory issues in the wholesale sector are notably electricity generation issues and licenses, SEM, economic purchasing obligations, hedging and wholesale energy purchasing strategies.

Figure 2 Structure of the electricity sector in Northern Ireland

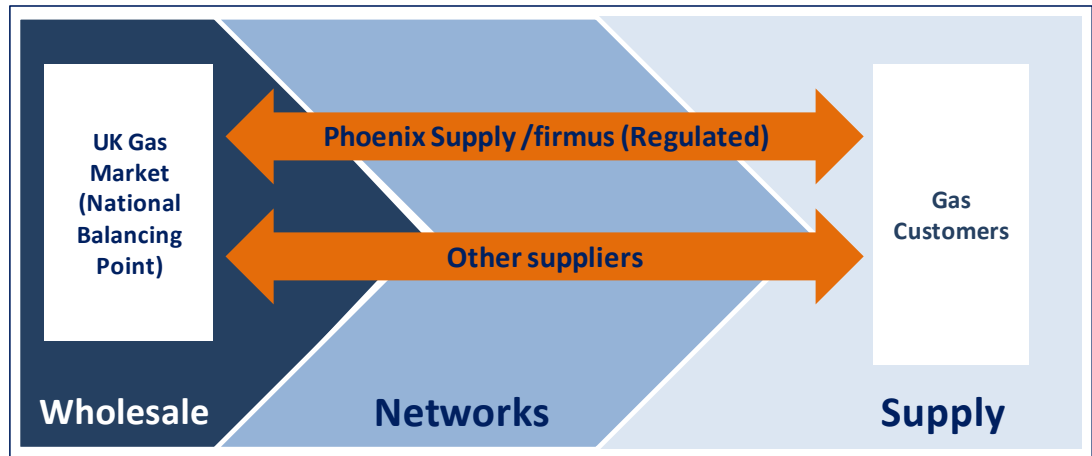


Regarding the gas sector, all natural gas arriving to NI is bought on the UK National Balancing Point, and then transported throughout pipelines. The UR has no control over the wholesale gas market.

Retail markets: where suppliers trade with customers. Historically there was only one supplier in Northern Ireland. However, since the market began to open up, more suppliers have entered the market providing a choice for customers. Key regulatory issues in the retail sector are developing effective competition that can benefit all customers, price control of the former incumbent supplier (as monopolistic attributes remain and competition is insufficient to fully protect customers) and customer protection in terms of price and service quality.

Networks: pipes and wires used for the transportation of gas and electricity to customers. Regulating networks consists mainly of effectively regulating natural monopolies and incentivising efficient behaviour, guarding against market abuse by dominants, establishing a level playing field and third party access to monopoly networks, price controls and taking into account safety and environmental issues.

Figure 3 Structure of the gas sector in Northern Ireland

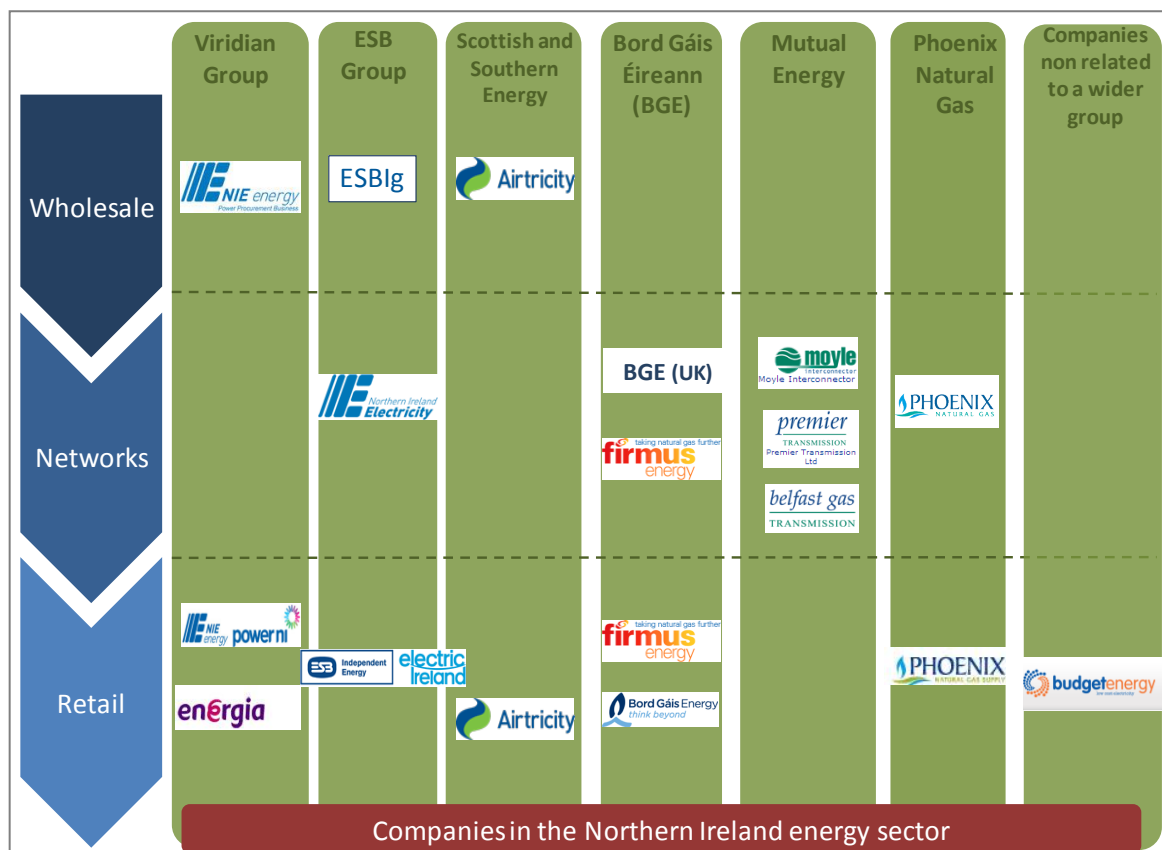


Energy sector's main agents

This section is aimed at showing a brief overview of the main agents with a role in the gas and electricity sectors in NI. Some of them are also active participants in the RoI or GB energy markets.

The industry players related to the energy regulated sectors can be represented by the following diagram. The names of the main companies, at the top of the diagram have been included only for information purposes.

Figure 4 Main agents in the energy sector in Northern Ireland



Source: UR

Viridian Group www.viridiangroup.co.uk

Viridian Group (Viridian) is formed by several companies including:

- Power NI (formerly called NIE Energy Supply, or NIEES) www.powerni.co.uk. It supplies electricity to homes and businesses in Northern Ireland. It was the incumbent supplier before liberalisation of electricity market in Northern Ireland.
- Enérgia, www.energia.ie/ni, was formed in 1999 as the retail arm of the Viridian Group in the de-regulated markets across Ireland. It obtains wholesale electricity from a number of sources, including principally Viridian's 750 MW Huntstown power station in north Dublin. Enérgia is a supplier of electricity generated from renewable sources and supplies gas in NI and ROI to large industrial and commercial customers.
- NIE Energy PPB manages a portfolio of Power Purchase Agreements with a total contracted generation capacity of 1,532 MW. PPB is required, under the terms of both its electricity supply licence and the SEM Trading and Settlement Code, to sell all the electricity generated under the PPAs into this market.
- Huntstown Power is a power plant located in Dublin which consists of two combined cycle gas turbine stations with a total generation capacity of 747 MW.

- Eco Wind Power is a company formed to capitalise on major opportunities in the field of renewable energy. It is developing 121 MW of approved wind generating capacity, on top of its existing operational wind farm capacity of 24 MW.

In 2010 Viridian sold Northern Ireland Electricity (NIE) to ESB.

ESB www.esb.ie

ESB Group is made of several businesses, related to electricity and gas supply, energy solutions and services, managing of RoI electricity network and operation of meters, etc.

Within the ESB Group, Electric Ireland (www.esbie.ie) is the new brand that represents both ESB Independent Energy and ESB Customer Supply. From April 2011 it has been called ESBIE Electric Ireland, and from January 2012, they will drop the reference to ESB Independent Energy and their name will be Electric Ireland.

ESB bought NIE from the Viridian Group in 2010. NIE is in charge of transmission and distribution of electricity in Northern Ireland. It comprises the planning, development, construction, operation and maintenance of the transmission and distribution network, used to convey electricity from generating stations in Northern Ireland to customers' premises.

Scottish and Southern Energy

Scottish and Southern Energy (SSE) was formed in 1998. They are an electricity and gas company, operating mainly in the UK and Ireland. They have interests in electricity and gas production, distribution, supply and energy services.

SSE Plc bought Airtricity (www.airtricity.com) in 2008. Airtricity is the trading name of Airtricity Energy Supply (Northern Ireland) Limited, a renewable energy company developing and operating wind farms across Europe.

Airtricity is both a generator and supplier of electricity, and entered the NI domestic electricity market in June 2010.

Budget Energy (www.budgetenergy.co.uk)

Company established in 2011. They entered the Northern Ireland domestic electricity market in June 2011.

They are offering supply to the whole domestic sector, although keeping a more intense focus on the prepayment market. They currently have circa 2,000 domestic customers.

Bord Gáis Éireann UK www.bordgais.ie/networks/index.jsp?&pID=102&nID=109

Bord Gáis was established in 1976. It is a commercial State body, majority owned by the Irish Government, operating in the energy industry. Bord Gáis history goes from building a natural gas infrastructure throughout Ireland, Northern Ireland and Scotland to diversifying into the electricity market and supplying gas and electricity to homes and businesses throughout the RoI.

Its two main businesses are Bord Gáis Networks and Bord Gáis Energy.

Bord Gáis Networks mainly develops, operates and maintains the natural gas transmission and distribution networks in ROI. It is also responsible for new gas connections and for work on service pipes and meters at customers' premises.

Bord Gáis Energy is the retail arm of Bord Gáis Éireann selling gas and electricity to all market segments in an all-island basis. They entered the business electricity supply market in 2001 and the residential electricity sector in 2009.

Bord Gáis activities in Northern Ireland are carried out by two separate businesses; BGE (Northern Ireland) and firmus energy.

BGE (Northern Ireland) is licenced to convey gas along two transmission pipelines in Northern Ireland, the North-West Pipeline and the South-North gas pipeline.

firmus energy (www.firmusenergy.co.uk) is Bord Gáis' distribution and supply business in Northern Ireland. It won the supply and distribution licences for ten towns in 2005, and supplies gas to 90% of the large industrial and commercial businesses in these towns. In addition, it holds supply licences for both the natural gas market in Greater Belfast and electricity across Northern Ireland.

Phoenix www.phoenix-natural-gas.co.uk

Phoenix was established in 1996 to bring natural gas to Northern Ireland. Since then, the Phoenix Group has grown as the natural gas network has expanded, and there are currently four trading companies within the group:

- Phoenix Natural Gas Limited (PNG) is the distribution business. They own and operate the distribution network in the Greater Belfast area and Larne. The distribution business is responsible for the development of the pipeline network and for providing operational and transportation service platform to gas suppliers.
- Phoenix Supply Limited (PSL) is their supply business, which supplies natural gas to customers in the Greater Belfast and Larne area.
- Phoenix Energy Services Limited is the provider of services into the Northern Ireland energy market, Their remit includes metering and meter reading services across the natural gas industry in Greater Belfast and Larne.
- Phoenix Energy Ltd was incorporated in 2008 to supply natural gas in the ROI and expand the service offering of Phoenix Supply across the whole of Ireland.

Mutual Energy www.mutual-energy.com

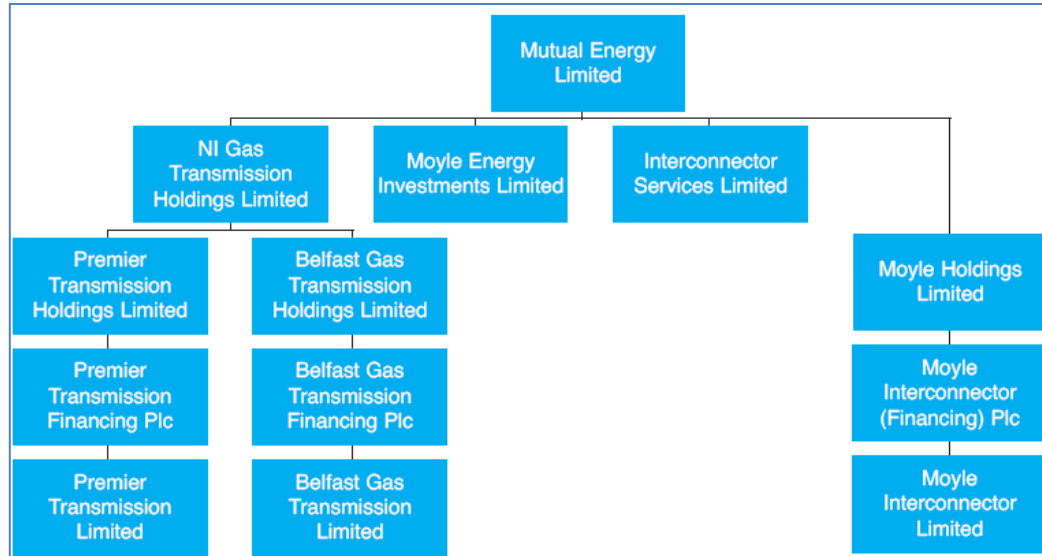
Mutual Energy, formerly Northern Ireland Energy Holdings is a mutual company which manages energy assets in the long term interests of Northern Ireland's energy consumers.

Premier Transmission Limited (PTL) is the owner and operator of the Scotland to Northern Ireland natural gas transmission pipeline, the SNIP, which links Scotland with the Ballylumford power station in Co. Antrim.

Belfast Gas Transmission Limited (BGTL) is the owner of the Belfast Gas Transmission Pipeline system (BTP) – a part of the Premier Transmission Pipeline System which runs from Ballylumford power station to the Belfast distribution network.

Since 2005, Mutual Energy own and operate the Moyle Interconnector, which links the electricity grids of Northern Ireland and Scotland through submarine cables.

Figure 5 Mutual Energy Group structure



Source: Mutual Energy, Annual report and accounts 2010

The table below shows a summary of the main energy assets located (totally or partially) in Northern Ireland and their owners and how they are regulated.

Table 4 Main energy assets

ACTIVITY	ASSETS	OPERATOR & OWNER	HOW THE UR REGULATES?	PRICE CONTROL
Power station	Ballylumford CCTG (1,213 MW)	AES	Electricity Generation Licence. SEM from 1/11/2007	NO
Power station	Coolkeeragh CCTG (455 MW)	ESBIE	Electricity Generation Licence	NO
Power station	Kilroot (Coal, Heavy Fuel 618 MW)	AES	Electricity Generation Licence	NO
Interconnector	Moyle Interconnectors	Mutual Energy	Moyle Interconnector Transmission licence	NO
Transmission lines	North/South tie-lines Tandragee - Louth Strabane-Letterkenny Enniskillen-Corraclassy	NIE T&D Operated by SONI	Transmission licences	YES
Transmission system	275 kV and 110 kV network	NIE T&D Operated by SONI	Transmission licences	YES
Distribution System	33 kV, 11 kV, 6.6 kV and 400 V network	NIE T&D	Transmission Licence	YES
Transmission pipeline	SNIP	PTL (Premier Transmission Limited)	Gas Transmission Licence	NO ^[1]
Pipeline	BGTP	Belfast Gas Transmission Pipeline	Gas Transmission Licence	NO
Transmission pipelines	NW (Northwest) & SN (South North) pipeline	Owned by BGE (UK)	Gas Transmission Licence	YES
Distribution pipelines	PNG network firmus network	Phoenix Natural Gas firmus energy	Gas Distribution Licence	YES

^[1] To improve the rate at which the SNIP and BGTP could be financed the normal regulatory control over any allowed operational expenditure accrued by both PTL and BGTL has been removed. The resulting transfer of risk onto consumers, through potential inefficient operating costs, can be limited through corporate governance licence conditions contained within the conveyance licences held by both PTL and BGTL. One of which is a condition that, in the form of a shadow price control, allows the Utility Regulator to review the level of operating expenditure forecast to be incurred by PTL and BGTL.

System Operator (SONI) www.soni.ltd.uk

SONI Ltd is the TSO in Northern Ireland, owned by Eirgrid plc, the TSO in the Republic of Ireland. Its role is to ensure the safe, secure and economic operation of the high voltage electricity grid in Northern Ireland. As electricity cannot currently be stored in any meaningful quantity, SONI must balance the generation with the demand in real time.

In conjunction with Eirgrid, SONI is the SEMO responsible for the operation of the Single Electricity Market on the island of Ireland.

SONI holds two licences: SONI SEM Operator Licence and SONI TSO Licence.

Market Operator (SEMO) www.sem-o.com

SEMO is the Single Electricity Market Operator, responsible for the administration of the wholesale electricity market, called the Single Electricity Market. SEMO is a joint venture between EirGrid PLC, the transmission system operator for the RoI, and SONI.

It is licensed and regulated cooperatively by the CER and the UR since 2004, when a memorandum of understanding was signed by both regulatory authorities.

The SEM is the wholesale electricity market operating in the RoI and NI. The SEM represents the first market of its kind in the world as a gross mandatory pool, operating with dual currencies and in multiple jurisdictions. The market includes approximately 2.5 million electricity consumers.

Consumer Council for Northern Ireland (CCNI) www.consumercouncil.org.uk/

The Consumer Council was set up in 1985 and is funded by the DETI. It is an independent statutory body that aims to promote and safeguard the interests of all consumers in Northern Ireland. It has statutory responsibilities for energy (including natural gas, electricity and coal), passenger transport and food, and from April 2007 became the consumer representative body for water and sewerage services.

The Consumer Council have an energy division that represents energy consumers in Northern Ireland. Essentially they provide free, impartial information, and handle complaints (about electricity, natural gas and coal) on behalf of consumers who have been unable to resolve problems directly with their energy supplier or meter operator.

They provide consumer advice in relation to energy issues, liaise with customers, energy companies, the UR and other relevant parties.

They also undertake research and produce publications on issues such as fuel poverty, energy efficiency, renewable energy and fuel prices.

1.4. Wholesale markets

Conventional generation

Northern Ireland has three major electricity generating stations:

Ballylumford power station, located in Co. Antrim, is a natural gas-fired power plant which consists of three stations and has 1,213 MW of total installed capacity. It is Northern Ireland's largest power station. It belonged to Premier Power Ltd from 1992 and has been recently bought (July 2010) by AES, an American power firm. The Ballylumford facility consists of the 587 MW C station, which is a CCGT¹⁰ unit; the 510 MW B Station, a conventional thermal plant; and two OCGT¹¹ units which provide an additional 116 MW nominal capacity for grid support and emergency response.

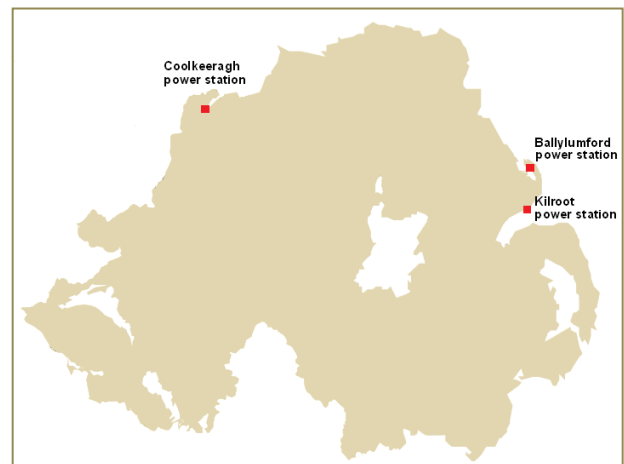
Coolkeeragh power station, in Co. Derry, is a natural gas fired combined cycle power plant with 402 MW of capacity, and a 53 MW OCGT. Its total capacity is 455 MW. It started to operate in 2005. It was constructed on the site of the old Coolkeeragh power station by Coolkeeragh Power Ltd. and ESB International.

Kilroot power station is the only coal fired plant left in Northern Ireland. It is a dual coal and oil fired facility with 618 MW total capacity, located in Co. Antrim on the north shore of Belfast Lough. It comprises two generators each capable of producing 300 MW when firing oil. It has belonged to AES Kilroot Power Ltd (Aes Corporation) since 1992, when NIE sold its four power stations in Northern Ireland.

In Northern Ireland, electricity is also obtained from GB through the Moyle Interconnector, the undersea link between the electricity grids of Northern Ireland and Scotland. It was opened in 2002. The link has an importing capacity of 500 MW and an exporting capacity of 80 MW.

In relation to the overall SEM on the island of Ireland, the generation fuel mix is shown in the following chart. Most of the generation capacity is gas-fired, with more than 4,000 MW of combined cycle plant and around 1,500 MW of other gas-fired plant including open cycle.

Figure 6 Power plants in Northern Ireland

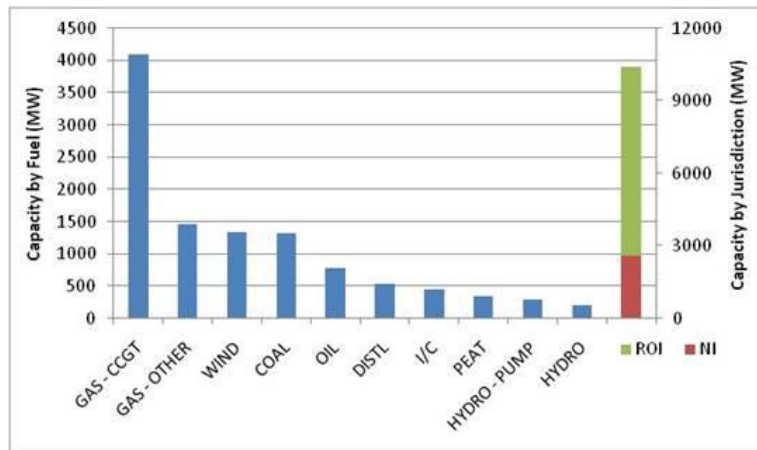


Source: SONI and the UR

¹⁰ Combined Cycle Gas Turbine (CCGT): A unit whereby electricity is generated by a gas powered turbine and also a second steam-powered turbine. The hot exhaust gases expelled from the first turbine are fed into the heat exchanger to generate steam which powers the second turbine. Joint Capacity Statement 2010.

¹¹ Open Cycle Gas Turbine (OCGT): A unit whereby electricity is generated by a gas powered turbine and no use is made of the hot exhaust gases.

Figure 7 Generation capacity per fuel type in 2010

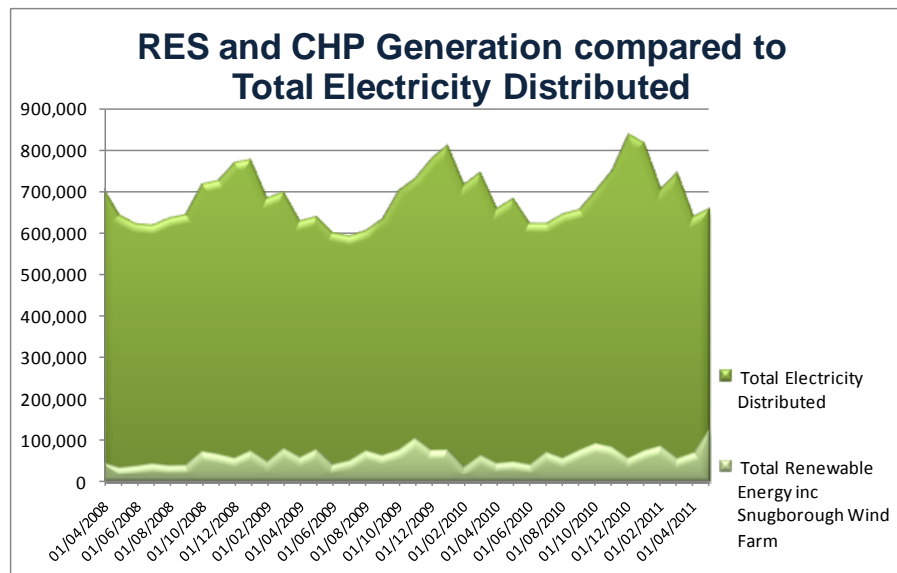


Source: The UR

Renewable Energy Sources (RES)

In 2010 (April 10 – March 11) 9.16% of electricity supplied in Northern Ireland was generated from RES. The following chart compares the total electricity distributed in NI against the generation of electricity through renewable energy and CHP¹².

Figure 8 Renewable and CHP generation vs. total electricity distributed

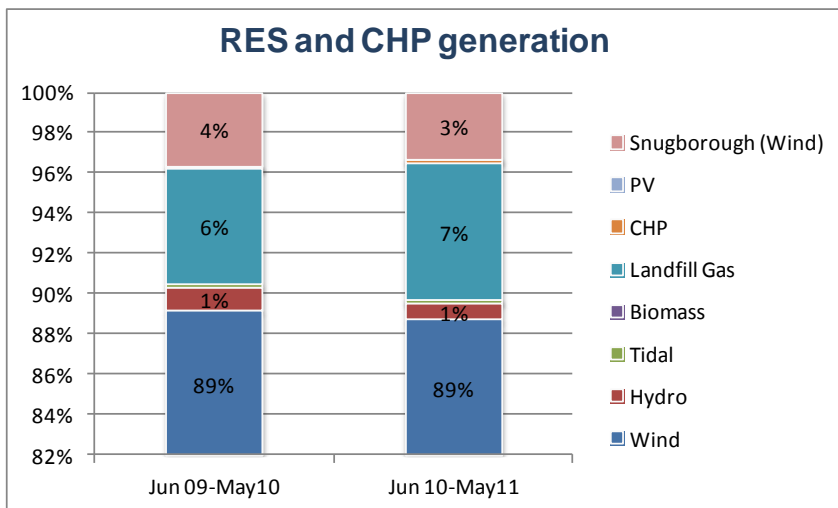


Source: NIE

¹² Combined Heat and Power (CHP): The simultaneous generation of electricity and heat for use within buildings or processes, by recovery of the heat produced in the power generation process. As such, CHP represents the highest efficiency means of generating electricity.

The following chart shows the breakdown of RES and CHP production for the current year and the year before.

Figure 9 Renewable and CHP generation



Source: NIE

Electricity generation licences

Current generation licences in Northern Ireland, with the date they were granted, are:

- AES Kilroot Generating Ltd 13-Dec-07
- AES Kilroot Ltd (Kilroot Power Ltd) 31-Mar-92
- Altahullion Wind Farm 30-May-03
- Ballylumford Power Ltd 31-Mar-92
- Church Hill Energy Ltd 11-Dec-09
- ContourGlobal Solutions (NI) Ltd 25-Aug-09
- Coolkeeragh Power Ltd 09-Aug-02
- Crighshane Energy Ltd 11-Dec-09
- Crockagarran Wind Farm Ltd 27-May-09
- Curryfree Wind Farm Ltd 25-Aug-09
- Garves Wind Limited 16-Dec-08
- Gruig Wind Farm Ltd 29-Aug-07
- Hunters Hill Wind Farm Ltd 23-May-08
- Lendrum's Bridge Wind Farm Ltd 12-Mar-03
- Lough Hill Wind Farm Ltd 21-Jun-06
- Mantlin Ltd (Slieve Rushen Wind Farm) 13-Dec-07
- Owenreagh Wind Farm Ltd 17-Aug-07
- ScottishPower Renewables (UK) Ltd 03-Dec-08
- Screggagh Windfarm Ltd 03-Dec-08

- Slieve Divena Wind Farm Ltd 17-Aug-07
- SSE Renewables Developments (UK) Limited 02-Jun-10
- Tappaghan Wind Farm (NI) Ltd 14-Jun-04
- Thornog Windfarm Ltd 12-Oct-09
- SSE Renewables UK Limited 18-Apr-11
- ERE Developments Limited 22-Jun-11
- Hunter's Hill Wind Farm Ltd Carrickatane Site 22-Jun-11

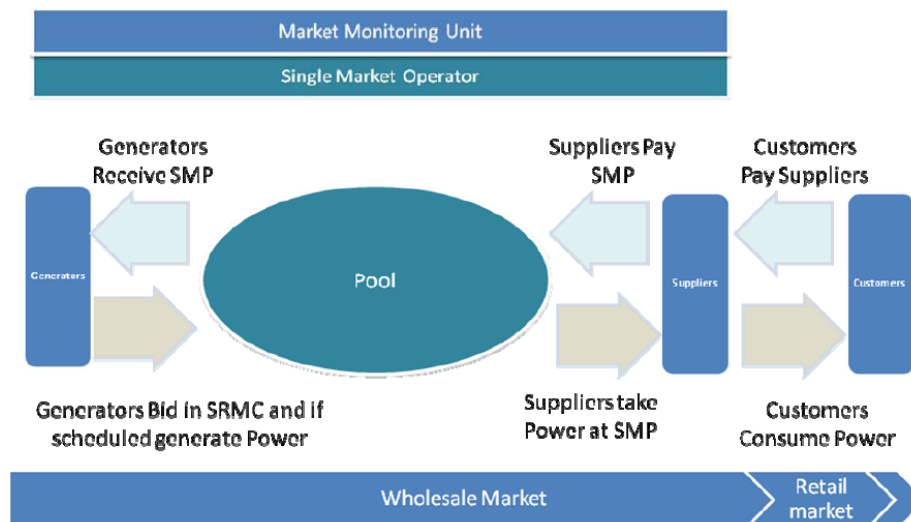
For further information on current Electricity Licences, please visit the following link:
<http://www.uregni.gov.uk/electricity/>

Single Electricity Market (SEM)

The SEM was established in November 2007, combining the two separate wholesale markets across the island, North (approximately 0.8 million electricity customers) and South (around 1.8 million customers) into the first cross-border market of its kind. The establishment of the SEM involved the input and cooperation of all parties in the electricity industry across the whole island.

All electricity produced on the island is sold into one large pool, while supply companies buy their power out of this pool with equal access for all suppliers. The SEM ensures that the price of electricity charged to consumers is reflective of the costs incurred by the generators to actually produce the electricity, with the most efficient generators that are available to meet demand being used on an all-island basis. The market is specifically designed to set the cheapest possible price for electricity at all times, and to ensure that no company has an undue influence over electricity prices. Currently, the Registered Capacity in the Market is 11,388 MW¹³.

Figure 10 Diagram of how the SEM works



Source: SEM Committee Annual Report 2009

¹³ <http://www.sem-o.com/JoiningTheMarket/Pages/MarketParticipants.aspx>

The SEM is regulated by the SEM Committee and monitored by the UR's Market Monitoring Unit. It can be considered an important development for the energy sector on the island, with benefits to all customers such as improving choice across the island and enhancing electricity security of supply.

Decision documents and consultation papers can be found in www.allislandproject.org.

Gas sources

Gas initially arrived in Northern Ireland in 1996 with the completion of the Scotland-Northern Ireland Pipeline, and pipelines of Belfast Gas Transmission Limited which delivered gas to the Ballylumford power station and to the Phoenix distribution network in Greater Belfast. The North-West and South-North pipelines were completed in 2004 and 2006 respectively, allowing the development of distribution networks.

Natural gas is the least polluting fossil fuel and it provides a further fuel choice for industry. Natural gas also provides domestic customers with the opportunity to convert from inefficient central heating systems to highly efficient gas condensing boilers and in due course to domestic combined heating power. Since its arrival, it has brought environmental, economic and social benefits.

Combined Cycle Gas Turbine technology is used to produce electricity from natural gas combustion. It offers lower cost and the least environmentally damaging form of fossil-fuelled electricity generation.

There are no indigenous sources of gas in Northern Ireland, it all comes from GB. However, the availability of natural gas is desirable because of the environmental and social benefits. Natural gas as an energy option has the following advantages:

- Less atmospheric pollution: the use of natural gas as a fuel creates less CO₂ emissions than traditional generation (natural gas produces 25% less carbon dioxide emissions than other fossil fuels).
- Efficiency: the combined cycle power plants have an approximate efficiency of 55%, while in coal or fuel generation plants the comparative figure is approximately 30-35%.
- Security of supply: through diversification of energy sources.

1.5. Networks

Electricity Transmission and Distribution networks

The Northern Ireland electricity grid comprises a number of interconnected networks of overhead lines and underground cables. There are approximately 2,100km (110kV and 275kV) of transmission network, of which some 80km are underground, and approximately 42,900km of the distribution system, of which some 13,100km are underground¹⁴.

There are more than 800,000 customers connected to the distribution system, which links the three power stations and external interconnectors to 30 main substations. SONI directs the output of each generating unit on the NI system to match supply to demand.

¹⁴ <http://www.nie.co.uk/customerinformation/>

The transmission and distribution assets belong to NIE who are responsible for planning, developing and maintaining the transmission system in Northern Ireland. They are under the UR Price Control. NIE holds the NIE Plc transmission & Distribution licence (http://www.uregni.gov.uk/uploads/publications/Electricity_Licensees_for_UR_Website_10_09_10.pdf).

The transmission and distribution business derives its revenue principally through Use of System (UoS) charges levied on suppliers that use the transmission and distribution systems. The *Statement of Charges for Use of the Northern Ireland Electricity plc Transmission System* and *Statement of Charges for Use of the Northern Ireland Electricity plc Electricity Distribution System* are annually published by SONI and after receiving the UR's approval. Charges are also applied for the System Support Services (SSS).

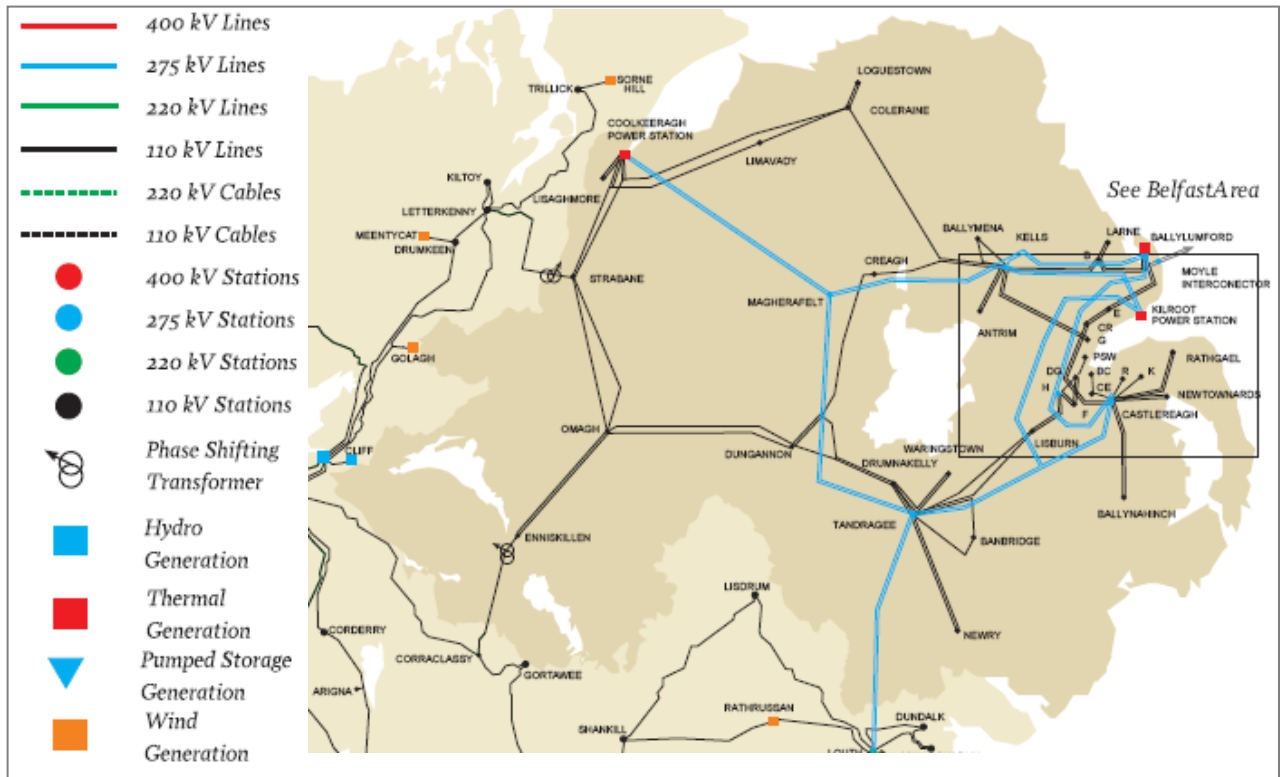
Interconnectors

Northern Ireland's electricity grid is linked to RoI through one major interconnector between the two grids. The current Louth to Tandragee interconnector consists of a 275kV double circuit overhead line and it has an approximate capacity of 500 MW. Since the establishment of the SEM, this link remains as an interconnector from a technical perspective. However, commercially it is treated as an ordinary transmission line for trading purposes.

There are also two small 110kV standby North-South interconnectors (Strabane - Letterkenny and Enniskillen – Corraclassy) which allow NIE and ESB to provide mutual short term technical assistance.

Also, there is the Moyle Interconnector, which holds the Moyle Interconnector Transmission licence (http://www.uregni.gov.uk/uploads/publications/Electricity_Licensees_for_UR_Website_10_09_10.pdf). This transmission asset has been included above as a generation asset, as NI obtains electricity through it.

Figure 11 Northern Ireland Electricity Transmission System



Source: SONI and Eirgrid

Figure 12 Moyle interconnector



Source: SONI (http://www.soni.ltd.uk/interconnector_moyle.asp).

There are currently two transmission licence holders, Northern Ireland Electricity plc, who holds combined licences for transmission and supply, and Moyle Interconnector Ltd.

Gas Transmission and Distribution pipelines

After the construction of the SNIP in 1996, two further transmission pipelines were constructed.

The North-West Pipeline was completed in 2004 to transport gas from Belfast to Londonderry, and serves the Coolkeeragh power station and also enables the development of gas networks adjacent to the route. The South-North Pipeline was completed in 2006, and it runs from Gormanstown, in the RoI, to Belfast, where it links into the North-West pipeline.

These pipelines have allowed the development of distribution and supply networks servicing a number of towns along the routes, know as the ten towns.

Currently all NI demand is supplied via the SNIP, however, arrangements are in place to facilitate the use of the South-North Pipeline in the event of an emergency in NI or in the RoI.

Figure 13 The gas transmission network in Northern Ireland



Pipeline Key	
Existing Pipelines (BGÉ/BGÉ UK)	
S. N. I. P. (PTL) & BGTP (BGTL)	
Pipelines Planned/Under Construction	

Source: Joint Capacity Statement 2011

NI has three gas TSOs, namely Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL) and BGÉ (UK) Ltd. The transmission companies are required under their respective conveyance licences to prepare plans for the operation, development and maintenance of the transportation system. Additionally, the transmission companies are required under their respective network codes to jointly publish a *Northern Ireland Capacity/Pressure Report* each gas year.

The NI distribution system is comprised of two networks:

- The Phoenix Natural Gas network in the Greater Belfast and Larne area, which has around 136,000 customers.
- The firmus energy network in the ten towns along the South-North Pipeline and North-West Pipeline which has about 9,500 customers.

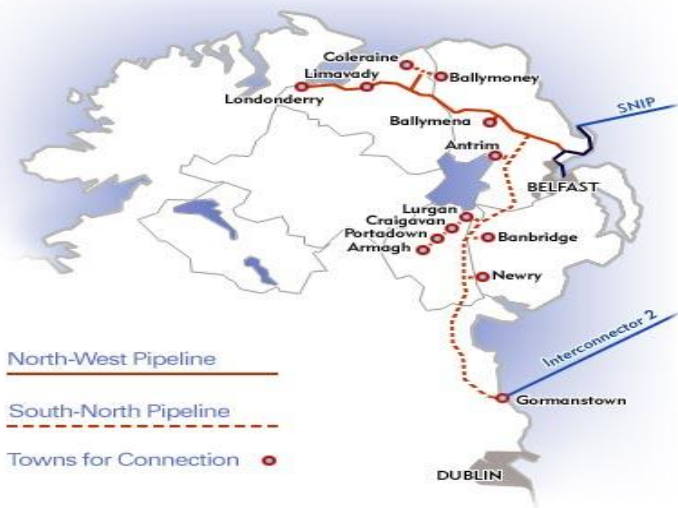
Planning and development of the distribution network is the responsibility of the respective distribution system operators with development and capacity obligations set out in the respective licences.

Figure 14 Maps of Northern Ireland gas distribution systems

Map of the Phoenix Area (all areas shown in colour)



Map of the BGE and firmus area



Source: Phoenix Natural Gas Limited Licence for the conveyance of gas in NI¹⁵

Source: firmus energy (<http://www.firmusenergy.co.uk/about-us/index.htm>)

Gas Conveyance licences

Gas conveyance licences cover the transmission and distribution of gas. The conveyance licensees are:

- Premier Transmission Limited (formerly Premier Transco Ltd)

¹⁵ PNG's licensed area includes also some other areas not shown in the map above. Those are detailed in the licence (http://www.uregni.gov.uk/uploads/licenses/GAS_Phoenix_Natural_Gas_Limited_Distribution.pdf).

- BGE UK Transmission
- BGE (firmus Energy Towns)
- Phoenix Natural Gas Limited
- Belfast Gas Transmission Limited (formerly PNG T)

For further information on current gas licences, please visit the following link:
<http://www.uregni.gov.uk/gas/>

Other gas developments: extending the gas network

The DETI and the UR have received the results of a study to consider possible extension to the Northern Ireland gas transmission network and DETI has carried out a public consultation. DETI is considering the way forward in light of the report's conclusions and consultation responses.

1.6. Supply sector

Supply Licensees in electricity sector

Current electricity supply licences in NI, with the date they were granted, are:

- Airtricity Energy Supply Ltd	26-Mar-02
- Bord Gais Eireann	15-Oct-02
- Electricity Supply Board	02-Jul-99
- Energia (Viridian Energy Supply Ltd)	02-Jul-99
- ESB IE (NI) Ltd	24-Feb-03
- firmus energy (supply) ltd	12-Nov-08
- NIE Energy Ltd (Supply)	31-Mar-92
- NPower	16-Jan-01
- Power & Gas Ventures Ltd	18-Dec-07
- Premier Power Ltd	15-Jul-99
- Quinn Energy Supply Ltd	19-Dec-07
- Regent Electricity (NI) Ltd	18-Dec-07
- Scottish Power Energy Retail Ltd	13-Aug-01
- Trade Link Solutions Ltd	28-Feb-06
- Budget Energy Ltd	21-Dec-10
- ONI Electricity Ltd	21-Dec-10
- Vayu Limited	04-Apr-11
- Lissan Coal Company Limited	04-Apr-11

Some of these licensees above are dormant or only supply affiliated power stations. There is more information in the next section about active suppliers in the NI retail market.

Supply Licensees in gas sector

In relation to gas, there are currently 13 gas supply licence holders, three of which hold licences to supply Ballylumford power station.

- Firmus Energy Ltd
- British Gas Trading Ltd
- ESBII Ltd
- Firmus Energy Ltd (Greater Belfast Area)
- Northern Ireland Electricity plc
- Phoenix Supply Limited
- Power & Gas Venture Ltd
- Premier Power Ltd
- VAYU Ltd
- Energia (Viridian) Supply Ltd
- Airtricity Energy Supply NI Ltd
- ONI Gas Ltd
- ESBIE (NI) Ltd

PART TWO: CORE RETAIL INFORMATION

Introduction

In this section of the report we present data related to the Northern Ireland's retail markets. We believe this information is useful to our stakeholders, and to those interested in NI energy retail sector. Also, this information helps us to monitoring the functioning of the retail sectors as they open fully to competition.

As part of our current Market Monitoring project, we collect, analyse and publish some key basic supply energy market information. We show this data on our website through the Transparency Reports¹⁶ on a quarterly basis. Those provide figures on both NI gas and electricity sector, related to the number of active suppliers in the market, switching activity, market shares of every supplier, and domestic price comparisons.

2. Retail orientated parameters

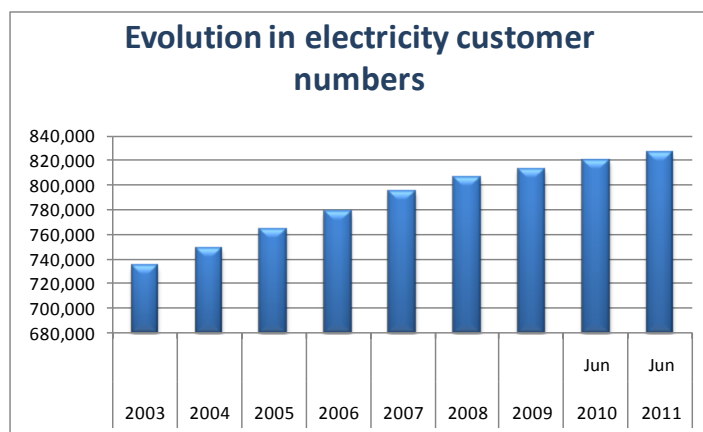
2.1. Retail electricity parameters

(i) Customer numbers (Electricity)

By June 2011 there were more than 825,000 electricity customers in Northern Ireland. Approximately 92% of them are domestic customers, while the non-domestic customers are around 7% of the total electricity customer in NI. The evolution in the number of customers is shown in the chart opposite.

Further breakdown of customer numbers in September 2011 by market segment is shown below. Within the domestic sector, the split shows more than 30% of the total customers use keypad meters. In the non-domestic side the widest among of customer belong to the category of Small and Medium Enterprises (SME) which includes businesses with demand below 1MW per annum. Going further, we split this category into those who consume less and more than 70 kVA, aligning with the Statement of Charges for Use of the Electricity Distribution System¹⁷.

Figure 15 Northern Ireland electricity customers

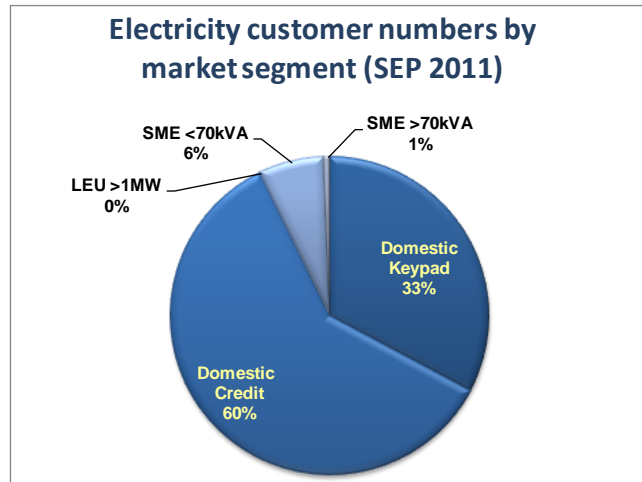


Source: NIE T&D

¹⁶ http://www.uregni.gov.uk/news/view/utility_regulator_publishes_retail_energy_market_monitoring_report/

¹⁷ http://www.nie.co.uk/suppliers/pdfs/DUoS_Statement_Oct10%20-%20Sept11.pdf

Figure 16 Customer numbers by market segment

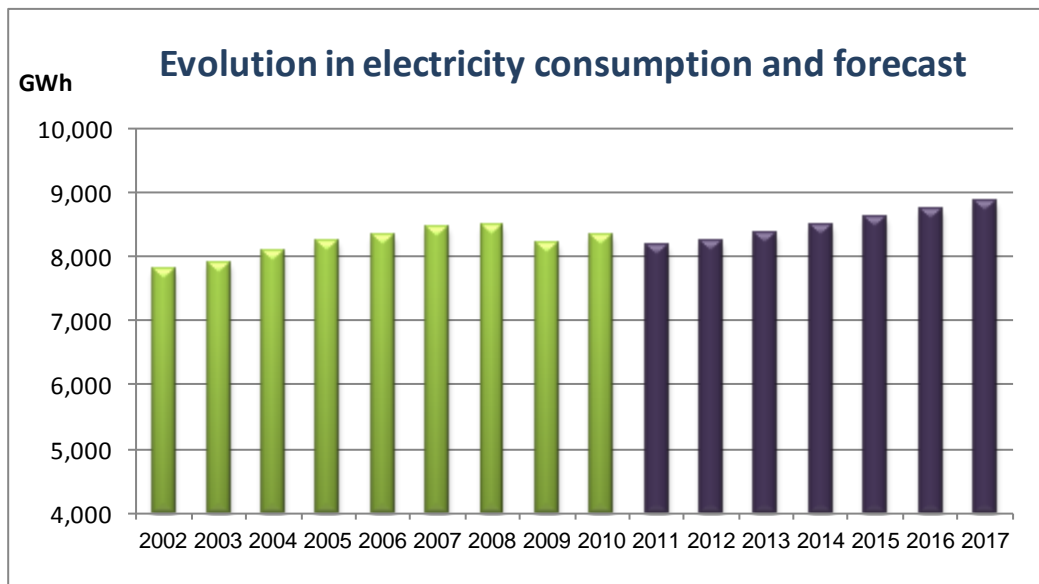


Source: NIE T&D

(ii) Demand/consumption (Electricity)

Total electricity consumption in calendar years in NI is shown in the chart below, alongside the forecast up to 2017. Total electricity demand in Northern Ireland traditionally increases at a trend average rate of 2% per annum. However, the last years have shown smaller increases, or even a decrease, as in 2009. The consumption in 2010 was 8,286 GWh.

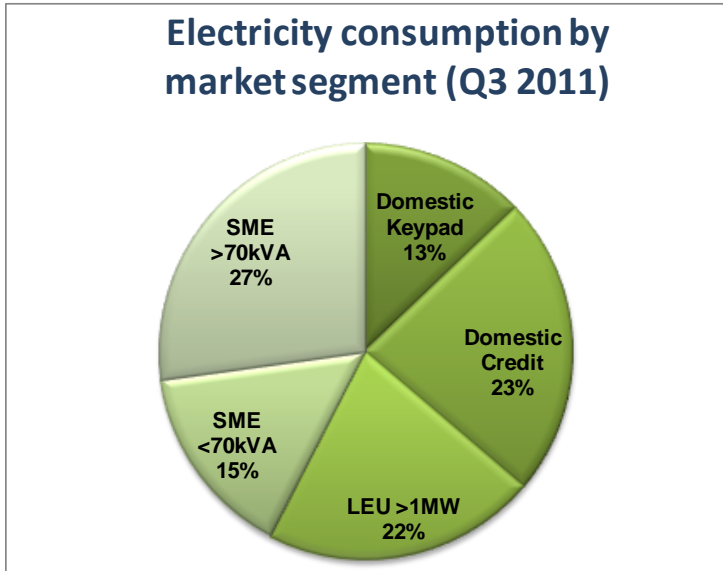
Figure 17 Northern Ireland electricity consumption and forecast.



Source: SONI

A more detailed breakdown of consumption between the different market segments in the third quarter of 2011 is shown below. The electricity consumption in this quarter was split between the domestic sector, with 36%, while the non-domestic sector demanded the remaining 64%.

Figure 18 Percentage of electricity consumption by market segment



Source: NIE T&D

(iii) Market shares/switching (electricity)

Survey work on attitudes

In May 2011 we published research¹⁸ conducted among electricity and gas customers in Northern Ireland. The objective of the research was to “inform the development of a number of consumer projects going forward” with the research outcomes also informing policy and decision making-making across electricity and gas projects. The research was based on a face to face survey of a sample of 1,203 electricity and natural gas customers which includes a booster sample of 400 natural gas customers.

In terms of switching, saving money remains as the most important reason for switching main energy supplier. Supplier visits to households was the main method used to switch (54%), and from those who have switched, 95% found it easy to do so, and 40% would consider switching again.

Among the non-switchers households, 77% have never thought about switching, with 50% saying they are unlikely to switch main energy supplier in the future, and 19% saying they are likely.

¹⁸ http://www.uregni.gov.uk/uploads/publications/SMR_Customer_Research.pdf

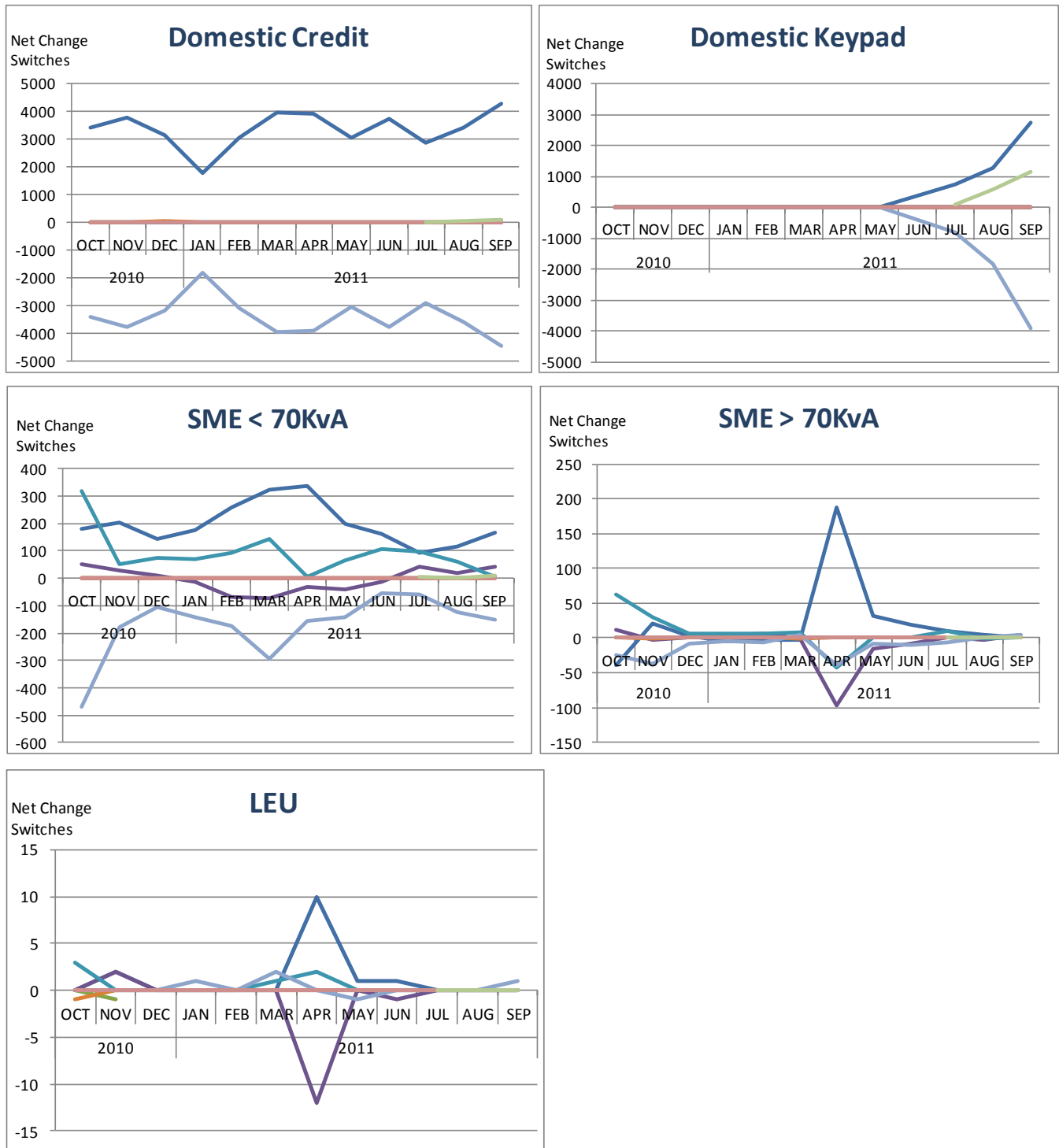
Switching data

Whilst there is a significant level of competition in the electricity market for business customers, household-level customers had no choice of electricity suppliers until recently. The only supplier in the domestic sector was Power NI until June 2010, when Airtricity entered this market offering electricity supply first to the credit segment and, a year later, to the keypad segment too. Then, in July 2011, Budget Energy also entered the domestic electricity market, in both credit and keypad segments, although focusing on the latter.

By September 2011, more than 56,000 domestic customers are supplied by Airtricity, and more than 1,800 by Budget Energy.

The graphs below show the net change of switches (gains less losses) by supplier. The period shown is the last quarter of 2010, where domestic competition started, and the three first quarters of 2011. The figures have been also broken down by market segment, so it is easier to separately analyse switching activity within different groups of customers.

Figure 19 Evolution in electricity switching activity by market segments



Source: NIE T&D

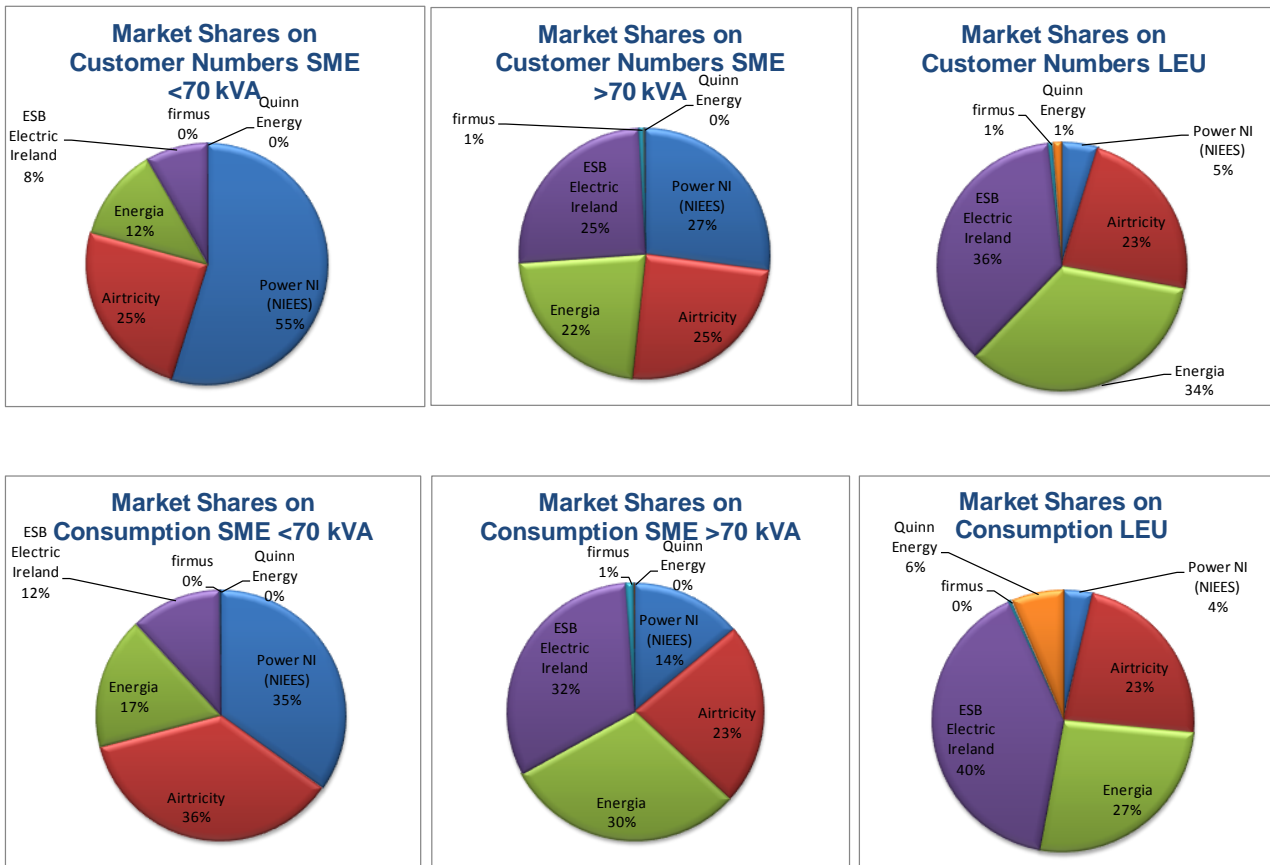
The current interim market system and support arrangements for domestic electricity switching are capable of dealing with 7,500 switches (churn capacity) per month. The existing overall

switching limit ceiling capacity is 125,000 switches. Both limits are currently under review by NIE, and we keep working with them to increase those limits.

Current market shares are shown in the set of graphs below. By them, it can be observed who the active suppliers in each market segment are, and what their corresponding market share is.

There are no charts of the domestic sector, as competition has only recently started and most of customers in this segment still remain with Power NI. However, actual competition is increasing, and since the first competitor entered the domestic market, there are more than 60,000 customers supplied by non incumbent companies.

Figure 20 Customer numbers and consumption market shares by market segment and supplier in 3rd quarter 2011.



Source: NIE T&D

The tables below show figures for last available quarter on customer numbers and consumption market shares in the NI electricity retail market. The breakdown is the same shown in the graphs above, by market segments and suppliers.

Table 5 Market shares by customer numbers at the end of 3rd quarter 2011

Customer Numbers 3 rd quarter 2011	Domestic Credit	Domestic Keypad	SME <70kVA	SME >70kVA	LEU >1MW	Total
NIEES/Power NI	444,704	263,727	29,235	1,321	9	738,996
Airtricity	50,048	5,128	13,523	1,228	40	69,967
Energia	0	0	6,773	1,090	58	7,921
ESBIE/Electric Ireland	0	0	4,642	1,249	62	5,953
firmus	243	0	18	35	1	297
Quinn Energy	0	0	2	5	2	9
Budget Energy	159	1,804	15	0	0	1,978
TOTAL	495,154	270,659	54,208	4,928	172	825,121

Source: NIE T&D

Table 6 Market shares by consumption in 3rd quarter 2011

Consumption (GWh) 3 rd quarter 2011	Domestic Credit	Domestic Keypad	SME <70kVA	SME >70kVA	LEU >1MW	Total
NIEES/Power NI	372.10	232.25	92.63	68.02	15.61	780.61
Airtricity	53.23	2.97	106.30	119.49	92.45	374.44
Energia	0.00	0.00	45.53	143.89	97.70	287.13
ESBIE/Electric Ireland	0.00	0.00	34.90	160.69	158.91	354.49
firmus	1.43	0.00	0.34	4.69	1.44	7.90
Quinn Energy	0.00	0.00	0.05	0.47	25.43	25.94
Budget Energy	0.07	0.70	0.06	0.00	0.00	0.83
TOTAL	426.83	235.92	279.81	497.25	391.54	1,831.34

Source: NIE T&D

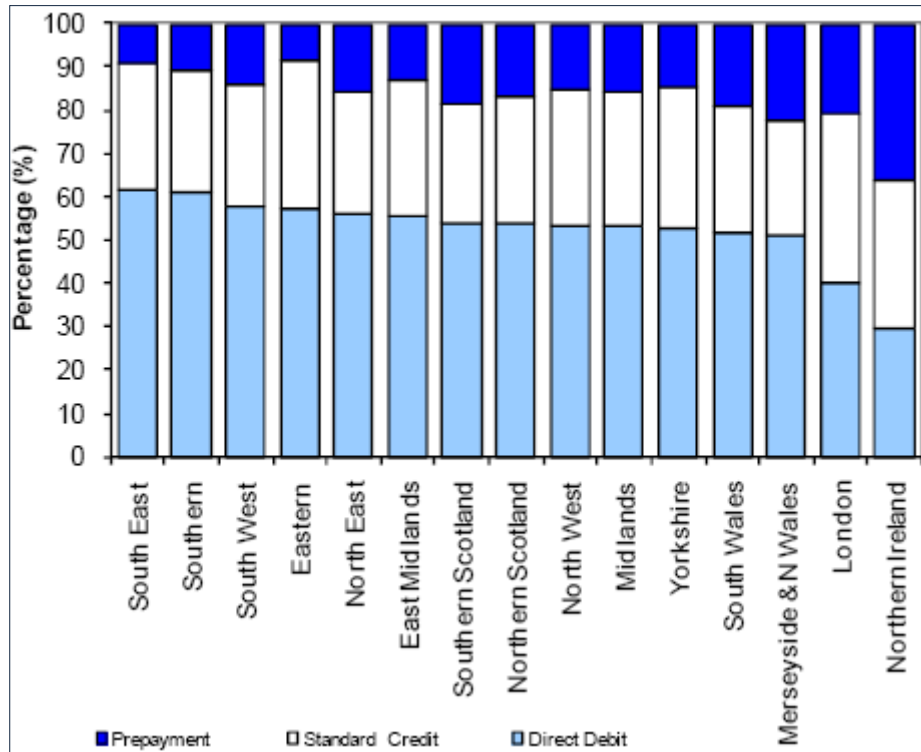
(iv) Methods of Payment (electricity)

Domestic customers in Northern Ireland can pay their electricity bill in different ways:

- Prepayment (associated with a pay-as-you-go meter) where customers can top-up their electricity as they foresee their short-term consumption.
- Standard credit, where for example authority is given to the supplier to charge the customer each quarter with an amount equal to the quarterly bill.
- Direct debit, where a direct debit mandate is established instructing the supplier to debit the customer's bank account each month with a fixed amount, based on the expected annual cost of the bill, or each quarter with an amount equal to the quarterly bill.

The chart below shows the UK regional variation of payment method for standard electricity.

Figure 21 Regional variation of payment method for standard electricity (June 2011)



Source: DECC. Quarterly Energy Prices, September 2011

In NI prepayment meters are chosen by many domestic customers in preference to credit meters for other reasons than dealing with debt problems. Subsequently, NI has the highest percentage of pre-payment customers in the UK, being around 36%.

2.2. Retail gas parameters

(i) Customer numbers (gas)

The gas market in Northern Ireland is split into two geographical areas. There are two gas distribution systems Phoenix Natural Gas network in the Greater Belfast and Larne area, and firmus energy network in the ten towns along the South-North Pipeline and North-West Pipeline.

The gas network in Northern Ireland continues to be extended. The number of customers (other than the power plants) by market segments in Northern Ireland in both gas networks by mid 2011, are shown in the table below.

Table 7 Connected gas customers in Northern Ireland

Number of gas customers by June 2011¹⁹	Phoenix's distribution Licensed Area	firmus' distribution Licensed Area
Domestic	128,058	9,830
Dom PAYG	78,080	8,390
Dom Credit	49,978	1,440
I&C < 2,500 therms	4,286	397
I&C > 2,500 and < 25,000 therms	3,230	687
I&C > 25,000	375	371
TOTAL	135,949	11,285

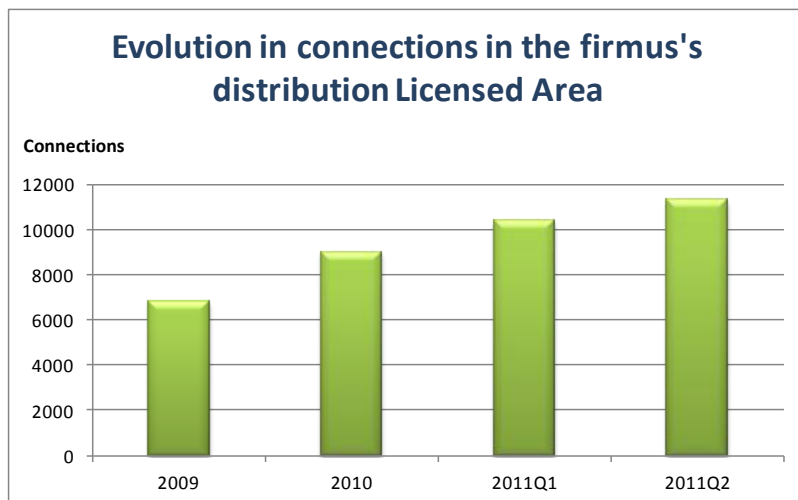
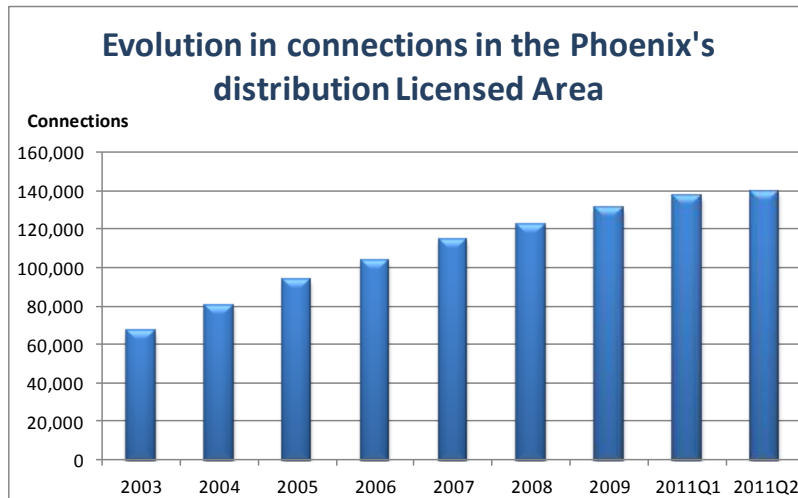
Source: PNG, PSL and firmus

The domestic sector represents the biggest share of the total number of customers, with 94% and 87% respectively in each licensed area. The shares go down to 5.5% and 10% respectively in each of the licensed areas in the segment of I&C up to 25,000 therms, and to 0.4% and 3% in the biggest market segment, above 25,000 therms.

The evolution and current number of connections in both distribution areas are shown below.

¹⁹ Energia has a very small fraction of the I&C market.

Figure 22 Connected gas customers in Northern Ireland



Source: PNG and firmus

(ii) Demand/consumption (gas)

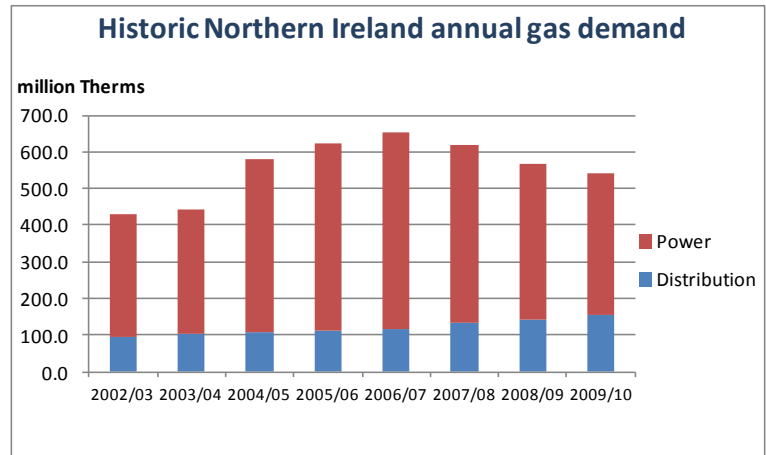
Historical Northern Ireland gas demand is shown in the next chart. The category called *Distribution* includes the gas demand of Phoenix Natural Gas and firmus energy, while the *power sector* includes the Ballylumford and Coolkeeragh power stations – both of which are fuelled by natural gas. The total Northern Ireland annual demand has grown by 25.89% over the period 2002/03 – 2009/10 (or 3.24% p.a.).

The distribution sector (households and businesses) grew by 8.15% p.a. with the expansion of the Phoenix distribution system in the Greater Belfast area and the firmus distribution systems along the North West Pipeline (NWP). The distributed gas volume in the Phoenix Natural Gas Ltd licensed area (Phoenix Distribution system which includes Greater Belfast and Larne) has grown by 35%, averaging 4.4% p.a. over the period 2002/03 to 2009/10. Growth in the PNG licensed area has been driven primarily by the organic growth in consumers of natural gas, the majority of whom are domestic customers.

There are four active gas suppliers in this area, Phoenix Supply Limited (PSL), firmus energy, VAYU and Energia.

firmus energy started to supply natural gas in the firmus distribution licensed area²⁰ (10 large towns outside of the Phoenix licenced area) in 2005, increasing their sales significantly in the following years, mainly in the I&C sector. firmus currently retains the exclusive rights to supply gas to all customers in their licensed area.

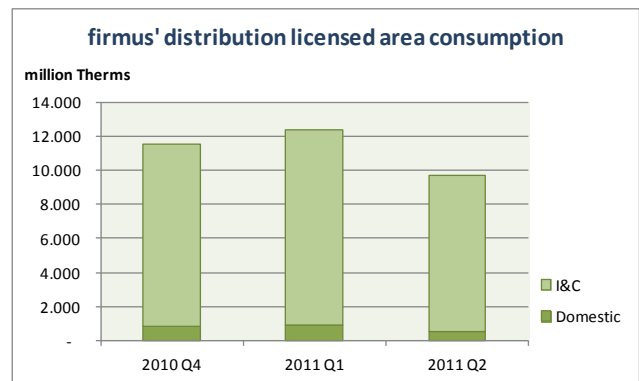
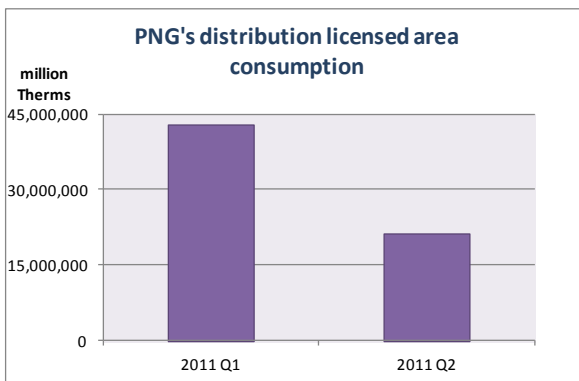
Figure 23 Historic Northern Ireland annual gas demand.



Source: Joint Capacity Statement 2011

Quarterly gas consumption in both distribution licensed areas is shown in the figures below.

Figure 24 Evolution of gas consumption in the Phoenix Licensed Area.



Source: PNG and firmus

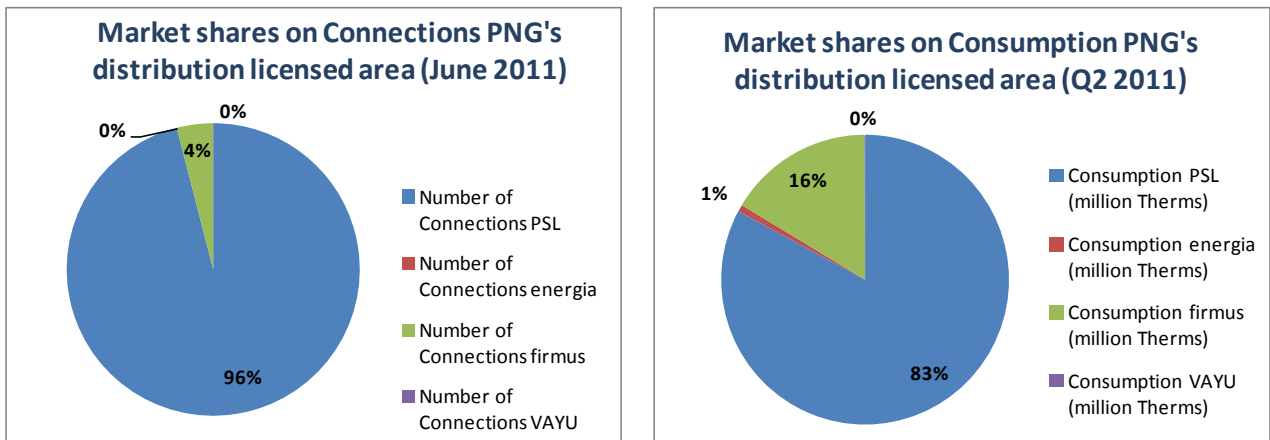
²⁰ ten towns: Antrim, Armagh, Ballymena, Ballymoney, Banbridge, Coleraine, Craigavon, Derry, Limavady and Newry. ALREADY PROVIDED THIS INFO

(iii) Market shares/switching (gas)

The firmus distribution licensed area is not currently open to competition, hence firmus energy has 100% market share in terms of both volumes and customer numbers, and in all customer categories.

In the Phoenix distribution licensed area, Phoenix Supply Limited has around 135,000 customers²¹. Competition in terms of gas supply in the Phoenix distribution area is still very immature, and PSL supplies more than 90% of customers and more than 80% of the demand within the Phoenix distribution Licensed Area.

Figure 25 Market shares in Phoenix's distribution licensed area

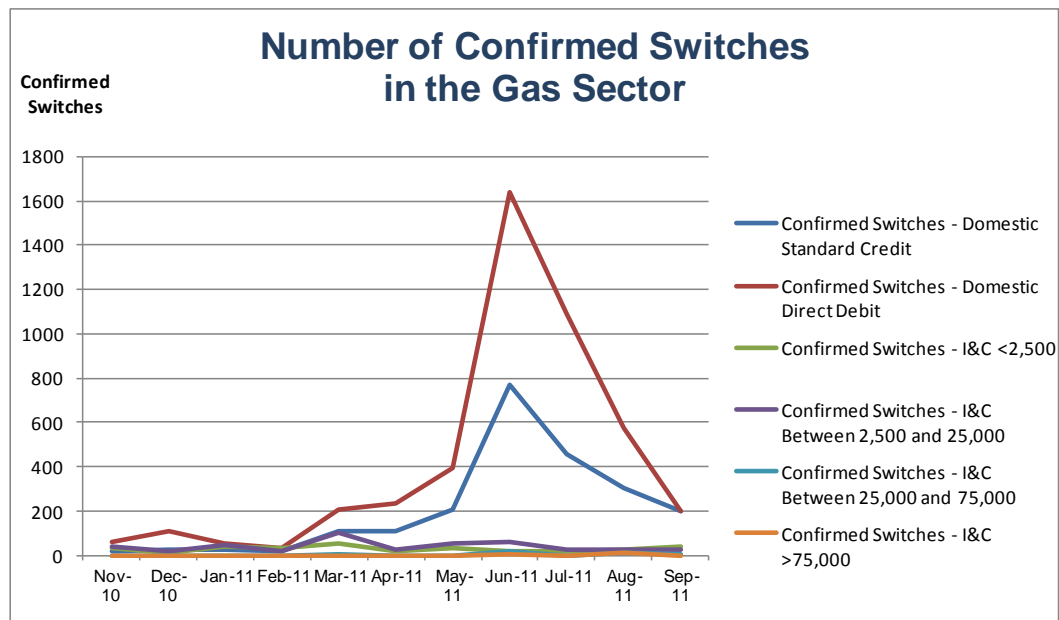


Source: PNG

The figure below shows switching levels in the gas sectors in the Phoenix distribution licensed area since the opening of the domestic market. In total, by end October 2011, more than 8,600 domestic customers, and more than 1,900 industrial and commercial customers have switched supplier.

²¹ <http://www.phoenixsupplyni.com/about-us/>

Figure 26 Switching activity in the gas sector (by number of switches).



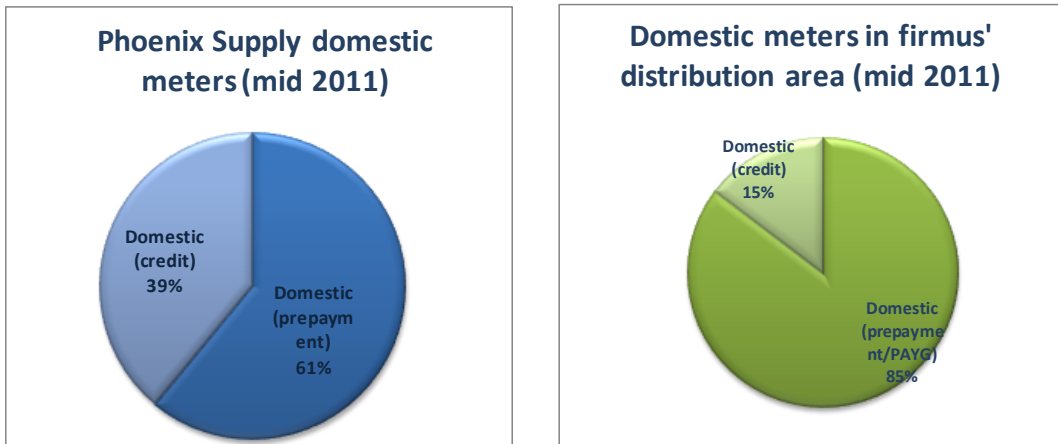
Source: PNG and PSL

(iv) Methods of Payment (gas)

Gas suppliers offer domestic customers a range of payment methods. Phoenix Supply are obligated to offer a range of payment methods in their licence. They offer their domestic customers a domestic home energy tariff, which can be paid quarterly or through direct debit (with the associated discount), and a pay as you go tariff. firmus offer also the direct debit system (using a fixed monthly payment or variable direct debit on a quarterly basis), and the prepayment option.

In the figure below we have shown percentages of customers with prepayment meters and the percentage of customers paying by credit options.

Figure 27 Split between payment methods.



Source: PSL and firmus energy²²

²² The terminology on meters has been homogenised for simplicity when comparing type of meters in both areas.

3. Energy Prices

The UR directly regulates the prices of suppliers who are in a dominant monopoly position in the domestic and small business sectors of the market. In electricity, tariffs are regulated for customers who consume less than 150 MWh per annum. In gas, tariffs are regulated for those using less than 25,000 therms per annum.

We act on behalf of consumers to ensure prices are as low as they can be, while still allowing regulated companies an allowed supply margin and to make the necessary investment for the future.

3.1. Make up of a typical domestic bill

Electricity

For consumers who consume less than 150 MWh per year, Power NI publishes a range of tariffs which have to be approved by the UR. We take an active role in scrutinising and approving these retail tariffs, which are the final prices customers pay. The tariffs are reviewed (usually annually, but it could be more often if necessary), and new tariffs usually commence on 1 October each year.

Electricity retail tariffs are made up of a number of components that are subjected to regulatory scrutiny²³

Table 8 Electricity tariff components

ELECTRICITY	Service	Regulatory Instruments/Scrutiny
Generation costs	Costs of procuring electricity including MO charges, contracting costs, cost of electricity, constraints and capacity charges.	Competitive and regulated wholesale market, approval of Power NI hedging methodology and annual approval of Power NI wholesale costs by the Regulator. The capacity pot is regulated, being consulted annually. SEMO Revenue and Tariffs 2009-10.
SSS charges	For system planning, operation and dispatch (SONI).	SONI Price Control.
PSO levy	Public Service Obligation costs which must be spread across all customers.	NIE Energy (PPB) Price control and annual approval of other costs.
Use of System charges	Costs of transmission and distribution of electricity across the wires network ²⁴ .	T&D Price Control.

²³ Power NI's 1 October 2011 Tariff Review. A Regulatory Briefing
http://www.uregni.gov.uk/uploads/publications/October_2011_Draft_Retail_Tariff_Background_Briefing_V2_0.pdf

Supplier charges	Costs to supply electricity to customers e.g. billing.	Power NI (formerly called NIE Energy Supply) Supply Price Control.
NIRO costs	Net costs of Northern Ireland Renewable Obligation (NIRO), related to government obligation on suppliers to sell a proportion of their output as renewables.	Audited on behalf of the UR by Ofgem as part of its UK-wide audit.
Correction factor	The difference between allowed revenue and actual recovered revenue (mechanism whereby differences between forecasts for tariff-setting and actuals can be recouped or returned to customers) and first year effect.	Analysis of variances between forecasts used for setting tariffs and out-turn costs.
Margin	Allowed margin above costs for Power NI.	This is determined by the UR as part of price control. Includes working capital costs.

Several of these components, such as market operator charges, System Support Service (SSS) charges, PSO levy, use of system charges, transmission and distribution charges, are common across all suppliers. As a result, the customer must pay these regardless of who their supplier is. These costs are regulated because they represent parts of the industry which remain under monopoly ownership and therefore not open to competition. Independent suppliers are free to enter the market and purchase power. However, they must add the components of the tariffs outlined above before setting the final price to sell to customers.

Gas

Due to the lack of competition in the tariff market (those using less than 25,000 therms per annum) and as determined by their licence, from 2007 Phoenix Supply have been subject to price control. Currently, as competition is still immature, the price control on gas supply applies to the domestic sector and to I&C customers who consume less than 25,000 therms per annum in the Phoenix's distribution area.

A price control does not exist for the firmus energy supply tariff, for the following reasons:

- firmus energy is still in the early stages of its development. With around 6,700 customers at the end of 2009, firmus is very much focused on growing their business and attracting as many new customers as possible. A necessary requirement to achieving this is to price as competitively as possible against alternative fuels (e.g. home heating oil, fuel gas). A price control on the supply tariff is not deemed necessary at this stage.
- firmus energy is incentivised through the distribution price control to maximise volume throughput over the control period. To achieve this firmus must price competitively in order to win new customers and increase the demand for gas flowing through its distribution network.

²⁴ http://www.uregni.gov.uk/uploads/publications/2010-11_TUoS_CHARGING_STATEMENTv11.pdf ; http://www.nie.co.uk/suppliers/pdfs/DUoS_Statement_Oct09-Sept10.pdf

In the gas sector, the components of the tariff differ from those in the electricity sector. The components of the gas supply tariff for Phoenix Supply Ltd are set out in the following table.

Table 9 Gas tariff components

GAS	Service	Regulatory Instruments/Scrutiny
Gas costs	This is the cost of the gas bought in GB, and is the most volatile component.	This is a pass through cost and is reviewed at every tariff review by the UR.
Transmission charges	Charges for transporting gas through the Northern Ireland transmission system.	Tariffs approved by the UR and published every July. ²⁵
Distribution charges	Charges for using smaller pipeline network in the Greater Belfast and Larne areas.	Tariffs approved by the UR and published every September. Tariffs are based on the regulatory determination in the distribution price control.
Supply costs	This is the operational cost of running PSL's business.	Costs are approved and published by the UR.
Correction Factor	As gas costs are forecast and fixed in advance, actual costs may differ from forecast and the difference is then included in the tariff. This can be positive or negative.	Analysis of variances between forecasts used for setting tariffs and out-turn costs.
Margin	Allowed profit margin for PSL.	This is determined by the UR as part of price control.

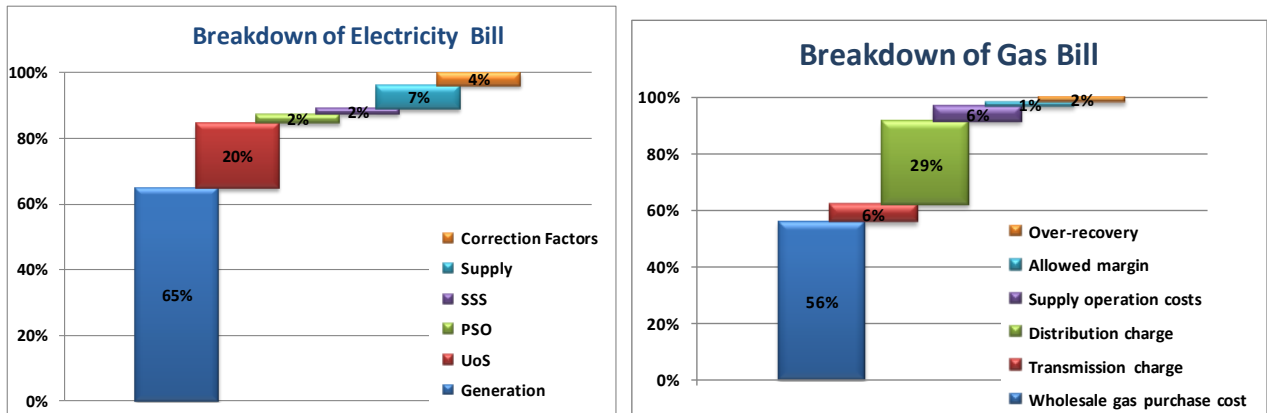
The Constituent parts of an average domestic customer's bill

The relative importance of the various elements that make up final bills is shown in the following figures. They illustrate the percentage components of the electricity and gas²⁶ bills for regulated customers. The electricity chart relates to the required revenues of Power NI for all of its regulated customers for the year 2011/12 (starting in October). The breakdown of the gas bill corresponds to all PSL regulated customers in October 2011.

²⁵ The transmission tariffs are published on the websites of BGE(UK) and PTL/BGTL. For BGE(UK) see <http://gasmap.ie/networks/index.jsp?1nID=102&2nID=109&pID=311&nID=319> and for PTL/BGTL see <http://www.premier-transmission.com/>

²⁶ The make-up of the gas tariff in the graph relates only to the PSL tariff.

Figure 28 Make-up of regulated electricity and gas bill



Source: UR, Power NI and PSL

3.2. Electricity prices: evolution and comparisons

Electricity prices in Northern Ireland

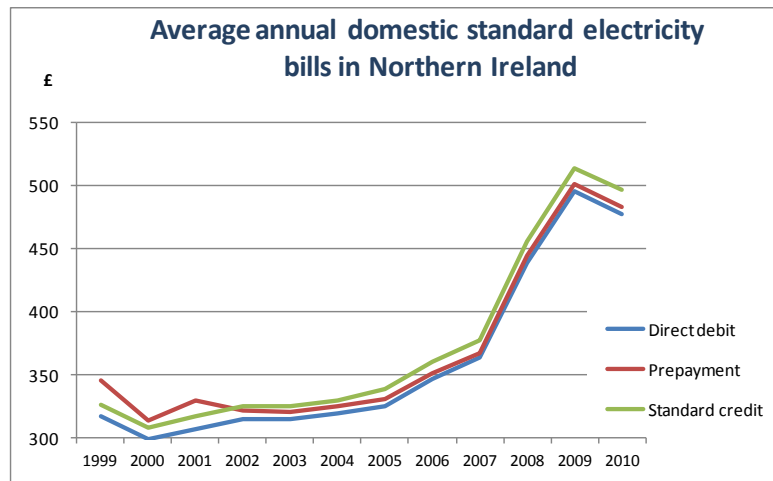
Regulated electricity tariffs in Northern Ireland still exist for customers who consume less than 150,000 units per year (equal to 150 MWh). For these customers, Power NI published a range of tariffs approved by the UR. Alternative suppliers compete for customers against these published tariffs.

The last tariff review²⁷ was published in August 2011, with effect from 1 October 2011. It set up an 18.6% increase in the Power NI' tariff, for domestic electricity customers.

The chart below shows the average annual standard bills for Northern Ireland domestic customers since 1999. It relates to a total bill received in the year, e.g. covering consumption from forth quarter of the previous year to third quarter of the named year. Those bills have been calculated assuming an annual consumption of 3,300kWh, and includes VAT.

²⁷ http://www.uregni.gov.uk/news/view/utility_regulator_comments_on_power_ni_tariff_announcement/

Figure 29 Average annual domestic standard electricity bills in Northern Ireland



Source: DECC, Quarterly Energy Prices. September 2011

Business customers who consume more than 150,000 units per year can obtain an individual quotation from each of the active electricity suppliers. The retail electricity prices paid by business customers within their contracts largely depend on three main factors that determine the price that a specific customer will pay for its electricity supply. These are:

- the time of day/year that the electricity is consumed at, which is known as the consumption profile. The higher the ratio of peak time units to off-peak units, the higher the average unit price will be. This is because electricity is more expensive to produce and transport at periods of high demand (note this does not apply to all customers supplied by Power NI on a regulated tariff);
- the voltage that the customer is connected. Lower voltage customers use more of the system than high voltage customers and therefore pay more; and
- the taxes that the supplier has to charge, which depend on the amount of green energy supplied and if the customer is in a 'climate change agreement' with the government. It is important to note that not all suppliers are subject to the same taxes. This should be examined in detail when comparing the quotations from different suppliers, to ensure that the lowest total cost option is chosen.

Relationship between wholesale and retail (electricity)

There is widespread recognition of the interplay between wholesale/generation and retail markets, and of the impact that wholesale energy cost movements can have on end retail tariffs. As shown before, a large percentage of a customer's electricity and gas bills is made up of the costs of the commodity, which takes its price in the wholesale market. The impact in Northern Ireland of an increase in the wholesale market prices is obvious, as most of the power is generated using natural gas, coal or heavy fuel. Therefore, it is fundamental to have confidence that prices are set against a benchmark that actually reflects the clearing price for the whole market.

Within the SEM it remains important to ensure competition is not distorted by anti-competitive behaviour or structures. As a result SEM is monitored on a daily basis by both the UR and CER.

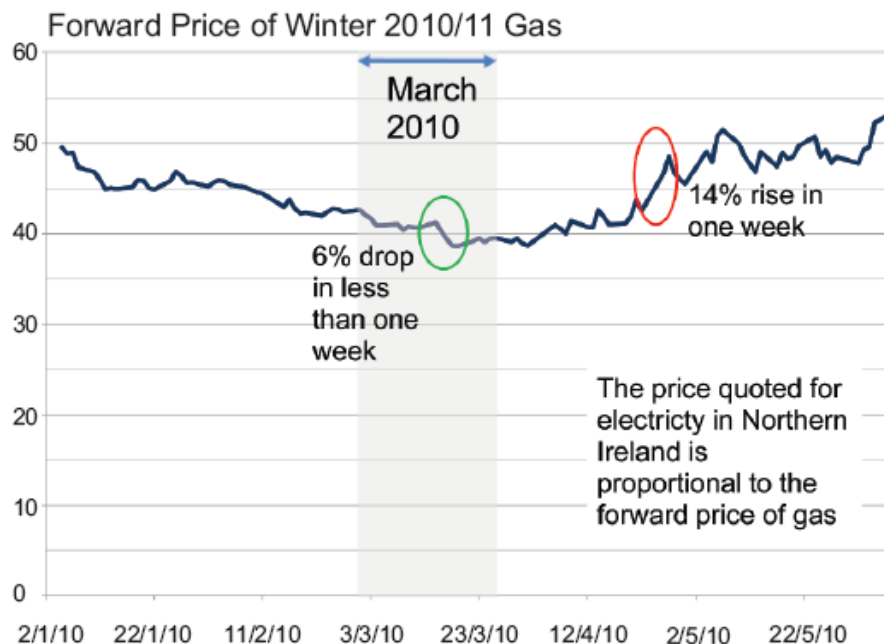
Since its establishment, both regulators have seen good progress towards improving the competitive structure of the market.

Suppliers have a number of different strategies related to buying electricity in the wholesale market. These include hedging, which is buying of wholesale gas and electricity ahead of physical delivery, so suppliers can buy gas or electricity months in advance. As a result, this can be linked to the reasons why they cannot pass on increasing or decreasing costs immediately to customers. Also, bigger suppliers can find good purchasing options when buying large volumes of electricity or gas, getting lower prices per unit that can be passed through to their customers.

Moreover, suppliers incur costs when changing prices, that might prevent the retail price from reflecting at a given moment of time the wholesale cost faced by the supplier.

The figure below shows an example of the volatility of the underlying costs associated with electricity.

Figure 30 Forward price of winter 2010/11 gas



Source: Electricity Buyer's Guide, the UR

Comparison of electricity domestic prices with GB and Rol

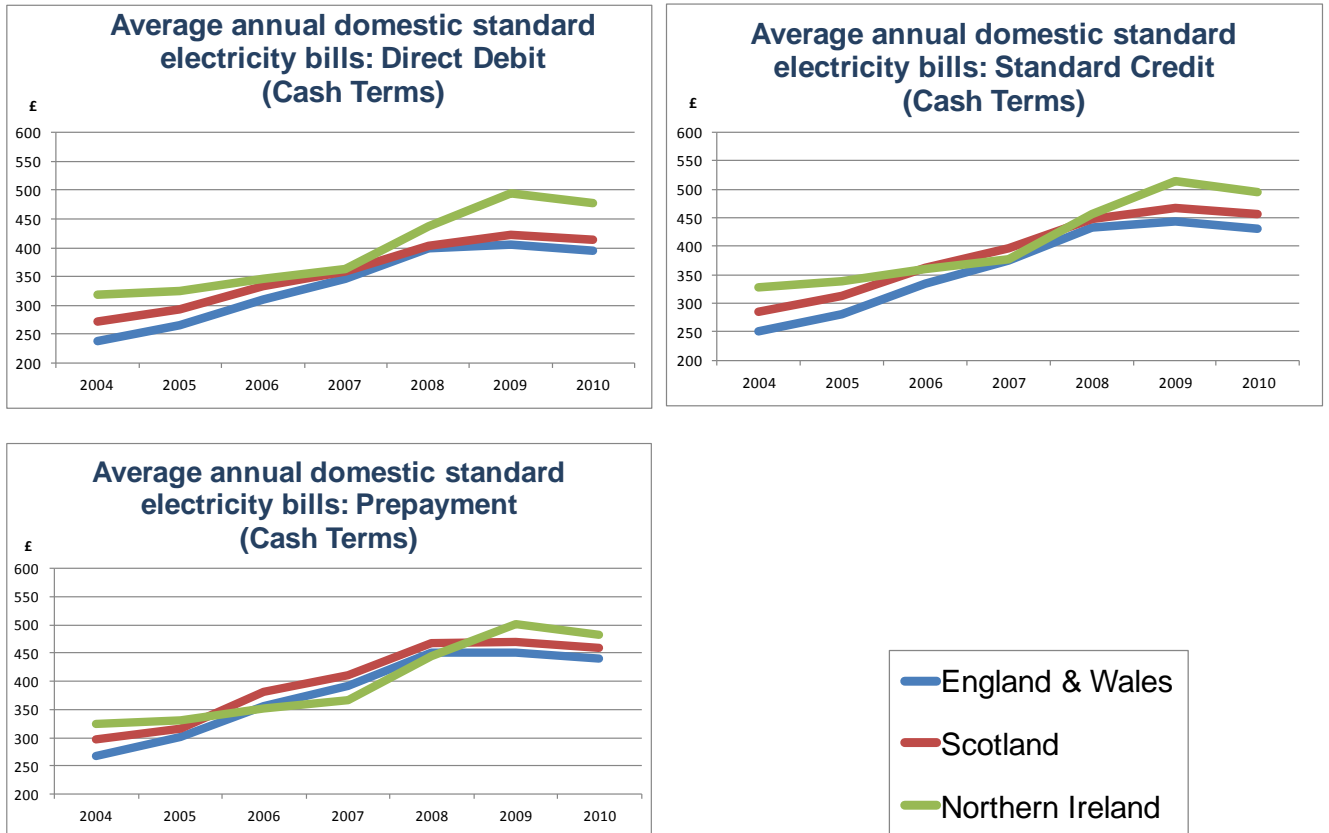
Historically, electricity prices in Northern Ireland have tended to be higher than GB. Key disadvantages that have led to higher prices in Northern Ireland are:

- higher energy transport costs;
- economies of scale in GB owing to the size of the market there compared to Northern Ireland;
- the additional cost of long- term legacy generation and associated contracts (not present in GB markets); and

- the different fuel mix in GB (i.e. Northern Ireland has a reliance on gas while GB's generation mix is spread between nuclear, gas and coal).

The difference in prices between Northern Ireland and GB can be seen in detail in the following charts, which show the average annual standard bills for UK countries in the domestic sector.

Figure 31 Average annual domestic standard electricity bills for UK countries, in cash terms.



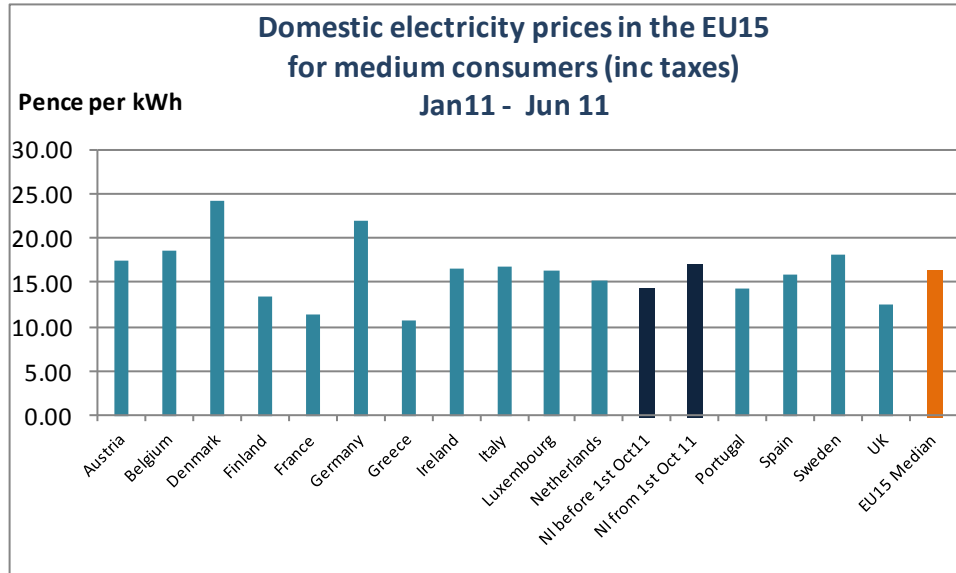
Source: DECC, Quarterly Energy Prices. September 2011

Prepayment method is the slightly more expensive option in England, Wales and Scotland. However, in Northern Ireland, standard credit is more expensive, as prepayment has historically included a discount for domestic customers. The bills have been calculated assuming an annual consumption of 3,300kWh, and including VAT.

Price comparison at EU level

The following figure reflects domestic price comparisons including VAT between Northern Ireland, RoI, GB and different European countries. Price for Northern Ireland is that set up for October 2011. The rest of the data are taken from September 2011 DECC's report²⁸, for medium consumers (2,500 – 4,999 kWh per annum). Those data relate to January – June 2011. For completeness, we show the NI regulated price both pre and post the 1st October tariff review.

Figure 32 Domestic price comparison at EU level.



Source: Power NI and DECC (Eurostat)

3.3. Gas prices: evolution and comparisons

Domestic and Small I&C Tariffs in Northern Ireland

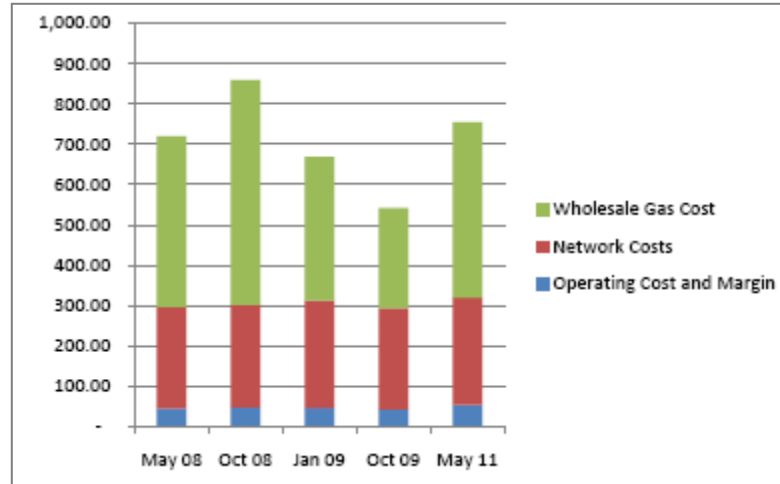
The Phoenix Supply tariff review normally runs for a 12-month period from 1 April each year. On 14th March 2011, the Utility Regulator announced that it was extending the time for completing the regulated gas tariff review relating to Phoenix Supply Limited by one month. This announcement was made as a result of the continued volatility in the international wholesale energy markets, and the need to gather further information to inform tariff decisions.

Then, in April 2011, as an outcome of the review carried out and due to rising international wholesale fuel costs, Phoenix Supply Ltd. announced a 39.1% increase in gas prices. The price increase applied from 1 May for Phoenix Supply Ltd customers in the Greater Belfast area. The tariff review is subject to a consultative process involving the Utility Regulator, Consumer Council and the Department of Enterprise, Trade and Investment.

²⁸ <http://www.decc.gov.uk/en/content/cms/statistics/publications/prices/prices.aspx>

The evolution on NI gas regulated price (on average annual bill) is shown in the figure below, with a breakdown on its main components.

Figure 33 Evolution of breakdown of average annual bill



Source: UR. Conclusion of the Utility Regulator's Review of the Phoenix Supply Ltd Maximum Average Price. April 2011

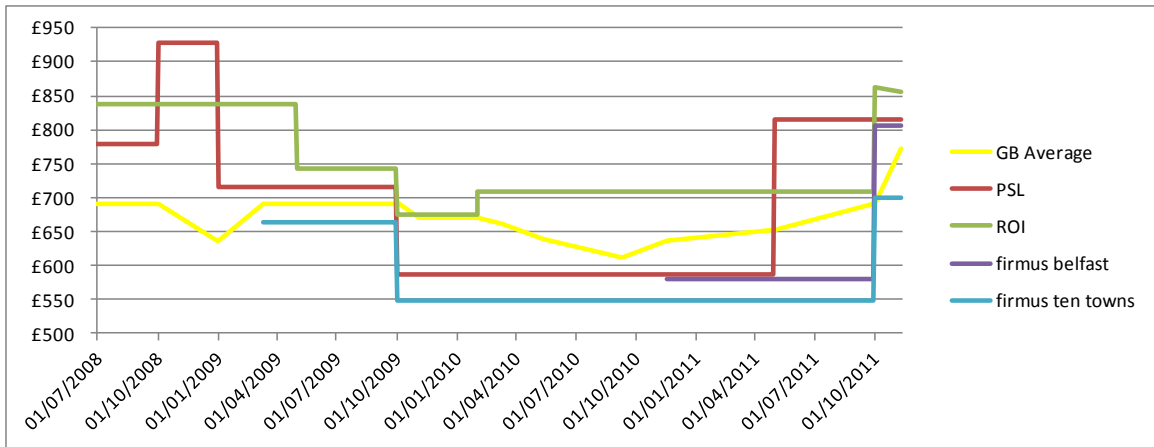
In September 2011, firmus energy announced a domestic prices increase by 28.4% from 1st October 2011. This was also a result of dramatic rises in the wholesale cost of gas.

Gas price comparison with GB and RoI

Historically NI prices have been higher than in GB, mainly due to the lack of indigenous supply, extra costs of gas transport from Scotland, recent infrastructure, etc. This trend changed in 2009 as a result of the almost immediate pass through of falls in prices to the customers from the price control in NI, and GB firms demanding greater margins. However, recently the rising of international wholesale fuel costs has lead to a 39.1% increase in Phoenix Supply Ltd prices from 1 May in the Greater Belfast area.

The graph below compares domestic prices for a standard tariff. It shows a GB average which includes the 6 big suppliers in GB. The annual usage estimate is 16,500 kWh.

Figure 34 Average annual bill for a gas customer on standard tariff: Northern Ireland, GB and Rol.



Source: UR

PART THREE: KEY RETAIL WORK AREAS

4. Continue to develop competition in energy supply in NI

Effective competition that can deliver real consumer benefits has long been and remains at the heart of the EU, UK and Northern Irish vision of energy retail markets. In recent times, the Utility Regulator (UR) has actively pursued a policy of creating a fertile environment for greater electricity and gas supply²⁹ competition to emerge, particularly in market sectors where competition has been absent (households). A dedicated Retail Unit was created to prioritise relevant projects and the impetus has now borne fruit, with the emergence of Airtricity and Budget Energy as new competitors to Power NI in the domestic electricity supply market; and firmus energy competing with Phoenix Supply in the Greater Belfast gas market. This has been a welcome and ground-breaking development for customers, and we are hopeful of further entry into our energy retail markets by other suppliers in the short to medium term.

The statutory remit given to the UR places a high value on competition as a means to deliver consumer benefits. Competition is a key feature, particularly in electricity where it is the Utility Regulator's primary statutory objective *'to protect the interests of consumers...wherever appropriate by promoting effective competition'*.

EU law is equally explicit about the central role of competition to deliver consumer benefit. Recent 2009 EU Directives³⁰ continue the pursuit of effective competition as an EU-wide policy goal and focus also on consumer rights and roles within retail markets *'in order to allow consumers to take full advantage of the opportunities of a liberalised internal market in electricity'*.

Revealed consumer preferences also drive our policy. The UR has abundant anecdotal evidence that Northern Ireland consumers would like to have more choice of their energy supplier.

Beyond these policy drivers, the current situation is that whilst there is a significant level of competition in both electricity and gas markets for **business** customers, household customers until recently had no choice of electricity and gas suppliers. That has changed.

Going forward, our overall philosophy in developing retail competition is to develop, change and where appropriate reduce the regulatory framework in a way that seeks to crystallise and maximize consumer benefit from competition. We contend that this can be achieved through maximising the degree to which the energy retail market is truly contestable and competitive - competitive entry (or the effective threat of it) and customer empowerment are the engines that can realise the benefits of competition.

The benefits from greater energy retail competition might include:

- **Innovation** – new suppliers, with experience in other markets, are likely to bring to market different products that extend consumer choice. This will likely include “dual fuel” options;

²⁹ The UR currently regulates the electricity and natural gas supply markets; not the home heating oil market at this time.

³⁰ Directive 2009/72/EC concerning common rules for the internal market in electricity; and Directive 2009/73/EC concerning common rules for the internal market in natural gas.

- **Service standards** – Competitive pressures, combined with effective industry systems, should enable high service standards to be delivered flexibly and cost effectively. Regulation can only effectively set a single standard which might be the average of consumers’ wishes, while competition can allow different supplier and product offerings to differentiate service levels, with prices varying accordingly;
- **Downward cost pressures** – in the short term, from creating competitive pressure to reduce costs in supply, and to be more efficient in the procurement of wholesale energy. In the longer term, from dynamic efficiencies and improvements driven by competition at both the firm and sectoral levels.

Delivering truly contestable and competitive supply markets will be the driver for ensuring consumers benefit. But it is also important to emphasise that we are not ‘blinkered’ in our pursuit of enhanced supply competition. We need to move forward pragmatically and recognising the complexity of issues involved with delivering competition in a relatively small market like NI.

As a first guiding principle to future policy development, we believe that electricity retail competition can *potentially* deliver benefits for consumers, so long as it is: developed efficiently; delivers truly contestable retail conditions in all market sectors; delivers lower prices than regulation of the retail market would otherwise have achieved; and NI consumers are empowered to fully engage with these markets. Thus our future regulatory approach and actions to currently regulated supply markets will be driven by evidenced emergence of contestability and competitive potential in our supply markets. An enhanced framework for energy retail marketing monitoring will thus be a key priority for us going forward.

As a second guiding principle, we believe that strong regulatory frameworks should remain in place until contestability/competition is firmly evidenced and until we believe that customers in NI can realistically expect to benefit from competition. As we go forward we need to try to ensure that all customers groups benefit from competition and switching opportunities, or at least are made no worse off. Where they do not, we need to ensure the regulatory structure continues to offer customer protection – competition where it is effective, regulation remaining where not.

The UR acknowledges that it is impossible for a Regulator in isolation to control the customer experience of a competitive market. However, as an ultimate goal, the “ideal” vision we have for a future energy supply customer environment is one where:

- Consumers benefit not just from competitive prices, but also from improved or differentiated service and tariff choices which better suit their requirements;
- Well-informed customers have clear knowledge and awareness of suppliers, products and tariff / service choices;
- Consumers can switch supplier quickly and simply;
- There is transparency regarding price, product and service, resulting in uncomplicated, high-quality decision-making by consumers;
- All sections of consumers either benefit from competition or are protected from being worse off by ongoing regulatory action (the latter might involve “backstop” price controls of the

incumbent supplier that new entrants can beat; price controls for non-switchers; non-discrimination conditions, etc).

- We achieve and leave open entry from more supply businesses offering a greater diversity of product and service bundles and who can find commercial space to grow;
- Successful competition of suppliers would not be necessarily dependent on vertical integration.
- And finally, effective competition limits the scope and extent to which formal regulatory price control is required over currently regulated supply entities.

In practical terms then, going forward our work within UR in this area will centre on:

- I. Delivering the necessary systems and processes to allow effective retail competition to emerge and unconstrained customer switching capabilities;
- II. Facilitating new supplier entry;
- III. Enhanced monitoring of energy retail markets to better understand contestability issues and customer experiences;
- IV. Implementing the Customer Protection provisions of IME3 and thus optimising customer protection frameworks e.g. in terms of Codes of Practice for suppliers, transparency of information and billing, protection of vulnerable customers;
- V. Continued effective cost/price control of regulated energy supply companies

5. Delivering effective retail competition and unconstrained customer switching systems

Following a review in October 2010 we agreed and approved with NIE that the current interim market system and support arrangements for domestic electricity switching are capable of dealing with an increased number of switches (churn capacity) per month from the previous limit of 6,000 to 7,500. We are currently in discussions with NIE to increase the churn once more to facilitate further entry into the domestic market and in direct response to an unexpected market demand for switching from prepayment customers . The existing overall switching limit ceiling capacity of 125,000 is also under review by NIE and this relates to the system capacity currently in place for month-end bill processing. To date the number of customers switching has not exceeded these limits and when the Enduring Solution goes live in May 2012, all switching constraints will be removed with the new systems.

Since Keypad switching became possible in July 2011 we have reviewed and analysed the pace of the increase in demand for keypad switching by studying supplier queues and analysing detailed daily reports on numbers of market messages, number of switches and average call times. We have also assessed with the network business the scope for increasing call centre resources and opening hours, and implementing system modifications to increase the capacity of the system for switching. This has resulted in an increase in keypad switching capacity from 38 per day to 150 per day, and a further 24 switches in the evening appointments.

The Enduring Solution (ES) project is on track to meet the Go Live date of May 2012. The ES project follows major IT projects as far back as 2005 and has the following objectives:

- To support unconstrained customer switching in NI electricity market;
- To provide full business separation for NIE and PowerNI;
- To replace major legacy systems approaching obsolescence; and
- To enable further harmonization between NI and RoI.

Supplier readiness for the ES go live date is an important aspect of the project, and supplier engagement is continuing right up to Go Live with the UR/suppliers/NIE. Liaison with the suppliers is currently good with a high level of corporation of suppliers and at this stage all are aligning well to the Go Live timetable.

The ES project will enable further harmonisation between NI and RoI. We continue to sit on the Harmonisation Steering Group, and have signed a Memorandum of Understanding with CER to apply a transparent, consistent and harmonised approach to the regulation of the wholesale and retail markets in a manner which supports effective competition and equal treatment of participants and customers regardless of their location. The RA's agree that harmonisation of the retail markets will further the common objectives of encouraging competition in supply markets and improving quality of service to all customers.

6. Facilitating new suppliers entry

We engage constructively with new supplier entrants and have a new supplier process which covers all areas that suppliers need to be aware of and understand in order to facilitate their entry into the market. This includes a review of five Codes of Practice - Service for vulnerable customers, Payment of Bills, Efficient use of Electricity, Complaint handling and Services for prepayment meter customers, in consultation with CCNI. We liaise with suppliers to ensure they are aware and understand specific licence conditions for example the obligation to offer all three payment types, the obligation that any differentials between tariffs are cost reflective and that terms and conditions offered to customers are fair and reasonable. We also review new suppliers sales plans and carve out switching capacity, waiting for new suppliers who have entered the process to prove their capabilities before re-allocating capacity further.

7. Enhance monitoring of energy retail markets to better understand contestability issues and customer experiences

We are aware that in the current context, close attention is required to the market and behaviour of participants in order to ensure electricity retail competition delivers benefit to all electricity customers.

We need to improve our knowledge of retail market, and our processes of information collection, in order to build up our regulatory knowledge-bank for policy decisions. This is even more relevant given the current developments in retail competition, and the need to comply with mandatory requirements coming from the Third Package.

Also, we need to cover the expectations of our stakeholders in terms of providing the necessary figures to keep them sufficiently informed. Finally, to enable consumers to make good tariff choices, they need accurate information about their own energy consumption and costs.

Given the above, we are undertaking a specific project on energy retail market monitoring. We are publishing the Quarterly Transparency Reports³¹, as a tool for assessing the development of the retail energy sector. They also intend to offer useful transparent information on the opening of retail markets to our stakeholders (mainly current suppliers, potential new suppliers, politicians, journalists).

The reports include the ongoing analysis of a set of indicators (i.e. market shares, switching activity levels, domestic prices, etc) obtaining the relevant information from the relevant companies and from the Department of Energy and Climate Change (DECC). The reports are released quarterly, on the second month after each natural quarter.

The benefits of the information gathered within the market monitoring project are:

- to fulfill Third Package requirements on retail market monitoring;
- to better assess customer gains from the implementation of full retail competition. The underlying principle of regulation in the retail market is that competition will ultimately provide the best for customers, through lower prices, better goods and services and increased efficiency. Consequently, it will be important to monitor the state of this competition;
- to inform the public how competition is developing, how it has impacted on consumers and how they can take part in the market by themselves. The lack of knowledge of consumers can lead to them being unable to make clear and informed purchasing decisions. In this sense, the information collected in this report has the objective of enhancing active participation by energy customers in retail Northern Ireland markets. It is clear that retail competition in energy markets requires active participation from the demand side, i.e. from consumers.

8. Implementing the customer protection provisions of IME3

For some years we have been improving contestability of Northern Ireland's energy retail markets to facilitate new entry of suppliers. The arguments for promoting competition are well-rehearsed (innovation, efficiency, downward cost pressure) but fundamentally come down to creating benefits for consumers. European Directives on Market Opening, also called the Third Energy Package or IME3, takes the twin track of developing internal markets, competition etc, but also adds new significant customer protection and information aspects.

The Third Package was published in August 2009, and consists of the EU's latest legislative measures to further liberalise its gas and electricity markets. The package consists of two directives (covering the gas and electricity markets separately), and three regulations:

- Directive 2009/72/EC concerning common rules for the internal market in electricity;
- Directive 2009/73/EC concerning common rules for the internal market in natural gas;
- Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity;

³¹ http://www.uregni.gov.uk/publications/view/utility_regulator_publishes_retail_energy_market_monitoring_report/

- Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks; and
- Regulation (EC) No 713/2009 establishing an Agency for the Cooperation of Energy Regulators.

The key elements of the Third Package include more enhanced consumer protection measures; more stringent requirements for unbundling network operations from other activities; ensuring fairer competition between companies within the EU and those outside the EU; more powers and independence for national regulators; greater cooperation between Member States; and the creation of a European energy agency. Many of the requirements are not new, and were part of the second European package on market liberalisation in the energy sector.

To a large extent consumer protection measures in the Directives build on the requirements under the 2003 Directives. Some of the measures are intended to apply to all customers, while others apply to domestic customers only.

In particular, the Directives require Member States to ensure that for household customers, consumer protection measures include:

- the right to a fair and transparent contract, in advance of signing, which contains all relevant information in clear and comprehensible language including duration of the contract, service quality levels, remedy where these are not met and complaints, company contact and consumer rights information;
- notice from the supplier of its intention to modify contractual conditions;
- access to transparent information on pricing and tariffs and a wide choice of payment methods;
- a good standard of service and complaint-handling;
- access to consumption data for comparing suppliers' offers and regulating use; and
- free switching within three weeks and prompt final billing on changing supplier.

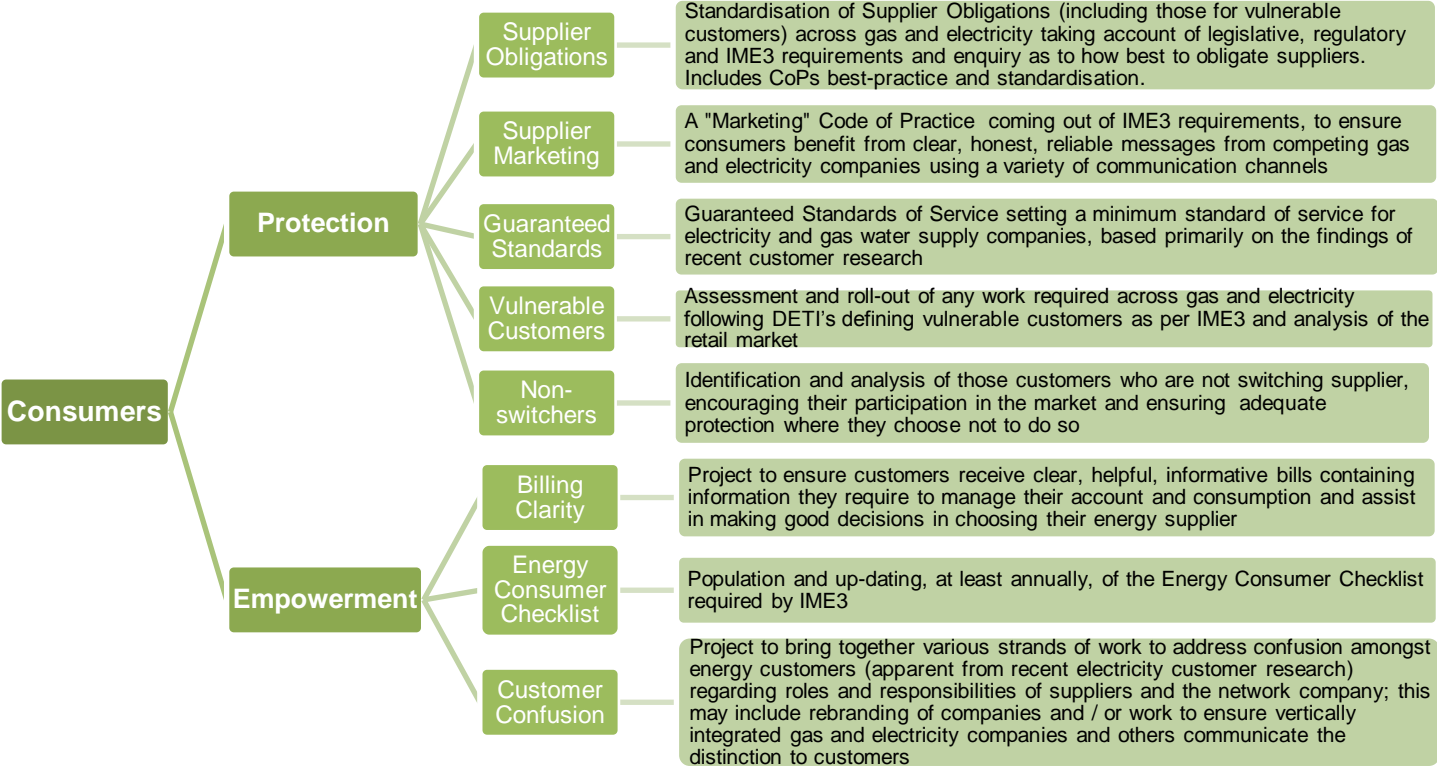
The Directives also require Member States to define vulnerable customers and ensure these customers have adequate protection and that all customers are provided with an energy consumer checklist detailing practical information on energy consumer rights.

DETI has already laid the legal Regulations to implement the Third Package and the UR is consulting on the associated licence modifications that will further define implementation in the NI context.

Our Work Streams in terms of customer protection

The Third Package requires a range of measures designed to facilitate consumers' understanding of the retail market and new entry of suppliers. Such measures include transparent information on prices, provision of relevant consumption data in an understandable format, appropriate measures to protect vulnerable customers and transparency of contractual terms and conditions. National Regulatory Authorities are to have a general objective to ensure customers benefit from the efficient functioning of the competitive market by promoting competition and helping ensure consumer protection (Article 36(g) Dir 2009/72/EC and Article 40(g) Dir 2009/73/EC). The Directives also confer specific powers and duties on NRAs including helping to ensure, together with other relevant authorities, that consumer protection measures, are effective and enforced (Article 37.1(n); Article 41.1(o));

We have defined a number of areas of customer-protection focused work to be co-ordinated across: both gas and electricity sectors going forward. Priorities and timelines are under discussion in the context of work on our draft forward work plan and resource availability.



9. Continued effective cost/price control of regulated energy supply companies

The Power NI Price Control

The current Price Control for Power NI³², published in October 2011, will run for a period of 24 months. The UR preference would be that this control will be applied retrospectively from April 2011 and run until March 2013.

The control period was decided as 24 months as this was deemed to be the most appropriate period given that the market is changing (with the onset of competition) and that the Enduring Solution will be completed mid 2012, a control with a duration longer than 2 years would be too long.

Power NI submitted their forecasts for Operating Cost requirements to the UR and these were thoroughly scrutinized. The UR consulted in May 2011 on their proposals for both the allowed level of Operating Expenditure and the allowed Margin for Power NI. The responses to the consultation and ongoing iterations with Power NI formed the basis of the Decision Paper.

The Tariff Review

The Power NI Tariff Review³³ was completed by the Retail and Social Directorate during August 2011. This review was in relation to the new regulated tariffs for Power NI which came into effect on 1 October 2011.

Power NI made their tariff submissions to the UR at the beginning of August 2011. The tariff inputs were verified and checked for reasonableness, with the overall maximum allowed tariff subsequently formally approved by the UR.

³² http://www.uregni.gov.uk/uploads/publications/Decision_Paper_for_Power_NI_Price_Control_V1_0.pdf

³³ http://www.uregni.gov.uk/news/view/utility_regulator_comments_on_power_ni_tariff_announcement/

Glossary

CAG	Common Arrangements for Gas
CCGT	Combined Cycle Gas Turbine
CCNI	Consumer Council for Northern Ireland
CER	Commission for Energy Regulation
CHP	Combined Heat and Power
DECC	Department of Energy and Climate Change
DETI	Department of Enterprise, Trade and Investment
EU	European Union
I&C	Industrial and Commercial
LEU	Large Energy Users
NI	Northern Ireland
OCGT	Open Cycle Gas Turbine
Ofgem	Office of the Gas and Electricity Markets
OFT	Office of Fair Trading
PNG	Phoenix Natural Gas
PSL	Phoenix Supply Limited
Q	Quarter
RES	Renewable Energy Sources
RoI	Republic of Ireland
SEM	Single Electricity Market
SEMO	Single Electricity Market Operator
SME	Small and Medium Enterprises
SNIP	Scotland to Northern Ireland Pipeline
SONI	Systems Operator for Northern Ireland
TSO	Transmission System Operator
UR	Utility Regulator

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