

Airtricity Gas Supply NI Price Announcement Q and As

Q. 1 Why is Airtricity making a gas price announcement?

In June 2012, SSE plc (Airtricity Energy Supply (Northern Ireland) Limited), bought Phoenix Supply Limited, which was then renamed Airtricity Gas Supply (NI) Ltd (Airtricity). As with Phoenix Supply Limited, Airtricity are subject to a regulatory price control for the tariff they charge to small industrial and commercial and domestic gas consumers in the Greater Belfast area. As the tariff is being increased, Airtricity are required to seek our approval.

Q. 2 Why is Airtricity announcing an increase in gas bills now?

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

There are two main elements driving the increase on this occasion:

1. Distribution network charges have increased. This represents about half of the 8.7% increase. Distribution network charges have increased largely due to the decision by the Competition Commission on the price control for Phoenix Natural Gas (who own and manage the natural gas distribution network in the Greater Belfast area). Our price control would have seen a smaller increase for natural gas consumers.

2. Less over-recovery being returned to consumers. At the last tariff review in April 2012, consumers were given back a large amount of money that was over-recovered by the gas company in the previous twelve months, which reduced the tariff. This money lessened the affect of increases in other elements of the tariff. For the tariff from 1 April 2013, the over-recovery is less than in the previous tariff year, which means there is less money to cover increases in other elements of the tariff.

Over-recovery happens when the company's forecast costs (particularly its wholesale gas costs) are more than their actual costs. During the tariff review process this money is then returned to consumers.

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

Following this price increase, Airtricity's domestic tariff will be just below the average domestic standard tariff in GB¹ and over 4% lower in comparison with Bord Gais tariffs in RoI².

¹ Based on the average of the Big 6 companies in GB: British Gas, Scottish and Southern Electric, Scottish Power, npower, EDF and E.on.

We may expect the Airtricity tariff to be higher than the GB average domestic standard tariff due to higher network and transportation charges to bring gas to Northern Ireland, however, since April 2012, the Airtricity tariff has been consistently lower than the GB average.

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

We act on behalf of consumers to ensure prices are as low as they can be, and that prices paid by consumers reflect the costs of providing the gas supply, while ensuring the supplier can make the necessary investment for the future. Following our scrutiny of the cost elements that make-up the tariff, we set a maximum tariff level which Airtricity can charge its consumers. We have carefully reviewed each of the cost elements and are satisfied that an increase of 8.7% is justified.

We also impose regulatory limits through Airtricity's price control to keep costs down. This includes limits on the gas company's profit margin. The allowed profit margin for Airtricity, also subject to the regulatory price control, is 1.5% which is significantly lower than comparable suppliers in GB. Profit is not guaranteed either, as it relies on the company running an efficient business.

Q. 5 Is there any further competition expected in the gas market?

We continue to be pro-active in supporting the development of competition in the gas market, and have taken steps to ensure that customers can make a choice (through switching). The domestic gas market in the Greater Belfast area has enjoyed competition since November 2010. We will continue to work with the energy industry to encourage competition and remove barriers to entry into the gas market.

² The tariffs used for comparison purposes are the standard tariff rates for domestic credit customers excluding any discounts available for payment by direct debit, viewing bills online etc. Comparisons are based on estimated average annual usage of 16,500kWh and are calculated based on the exchange rate as at 1 October 2012.