Utility Regulator
ELECTRICITY GAS WATER

Annual
Energy Retail Report

2013



About the Utility Regulator

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

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

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

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

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

Our Values:

- Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted
- Be a united team
- Be collaborative and cooperative
- Be professional
- Listen and explain
- Make a difference
- Act with integrity

Abstract

This paper is the latest of a series of Utility Regulator (UR) annual reports that provide a range of information about the retail energy market in Northern Ireland (NI).

The data relates mainly to market shares, market activity and domestic prices in the electricity and gas retail markets. For the first time in the report information on non-domestic electricity prices is included.

The information shown in this report comes from network companies, suppliers, DECC and Eurostat. Some figures have been calculated internally.

We are very grateful to stakeholders, particularly in the regulated companies, who regularly provide information for these publications.

Audience

Energy industry stakeholders, policy makers, energy consumers and consumer representatives, regulators, statistical bodies, potential new entrants into the retail energy markets, researchers, students and journalists.

Consumer impact

This report increases transparency for energy consumers on matters such as the active suppliers in each energy market sector, make-up of electricity and gas bills, NI prices compared against other jurisdictions, etc.

The information contained in this report also helps us to monitor the retail market, flagging any potential concerns, and helps to inform regulatory decisions.

Contents

1. Summary

NI energy sector has a relatively recent history in terms of supply competition, particularly in the domestic sector, where competition did not start effectively until 2010.

As a result, the energy sector, and especially the domestic sector, is still quite concentrated. In the domestic sector – in both gas and electricity – the previously incumbent suppliers own the majority of the market. In the non-domestic sector, competition is more mature, albeit there are still high levels of market concentration.

The following tables show a summary of the indicators that we currently monitor in the retail electricity and gas sectors.

Table 1 Summary of key market indicators: electricity sector

	Electricity	
	Domestic	Non domestic
Customer numbers at end 2012	777,268	59,827
Consumption in 2012 (GWh)	3,120	4,989
% of prepayment customers within domestic sector	37%	
Active suppliers in 2012	5	8
Market shares (by customer numbers) three largest suppliers Q4 2012	Power NI: 79% Airtricity: 19% Budget Energy: 3%	Power NI: 48% Airtricity: 28% Energia: 12%
Market shares (by consumption) three largest suppliers in 2012	Power NI: 81% Airtricity: 17% Budget Energy: 2%	Airtricity: 30% Energia: 24% Electric Ireland: 27%
Market activity: number of switches in 2012 as a % of customer numbers at end 2012	13%	10%
Prices	Around EU-15 median	Very small customers (0-20 MWh pa): around EU-15 median Rest of I&C (more than 20 MWh pa): on the highest end of EU-15 range

Table 2 Summary of key market indicators: gas sector

	Gas			
	Greater Belfast		Ten towns	
	Domestic and small non-domestic	Large non-domestic	Domestic	Non domestic
Customer numbers at end 2012	151,758	3,216	15,432	1,845
Consumption in 2012 (thousands therms)	60,606	69,269	3,833	46,241
Active suppliers in 2012	3	4	Market not opened to competition. firmus is the incumbent supplier.	Competition started in Oct 2012. No switches from firmus until end 2012.
Market shares (by number of connections) two largest suppliers last Q 2012	AGS: 80% firmus: 20%	AGS: 61% firmus: 39%		
Market shares (by consumption) two largest suppliers in 2012	AGS: 76% firmus: 24%	AGS: 66% firmus: 33%		
Market activity: number of switches in 2012 as a % of number of connections at end 2012	13%	11%		
Prices	NI gas prices among the cheapest in EU-15	Currently we do not collect information on non-domestic gas prices	NI gas prices among the cheapest in EU-15	Currently we do not collect information on non-domestic gas prices

2. Introduction

This series of annual reports details information on the regulated energy retail sectors in Northern Ireland (NI).

We thank our stakeholders for providing very helpful information to complete our reports – both annually and quarterly. This information enables us to continue to maintain and progressively expand the level of monitoring of the NI electricity and gas retail markets.

The annual energy retail report was conceived as a living document. We continue to improve and adapt its content and coverage to the needs of our readers, and at the same time use it as a monitoring and information tool alongside the Quarterly Transparency Reports[1] (QTRs).

To that end, we have included some changes to its structure and contents in this 2013 edition. We have reduced the background to the essentials in the energy retail context, and have focused the entire document on the data that we collect and analyse in our continuous monitoring of the electricity and gas retail markets. We have also included for the first time this year data on non-domestic electricity prices.

As always, 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. Comments in this respect should be sent to:

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2.1. Purpose of the document

With the arrival of energy supply competition at household level in 2010, transparency and information around the workings of our energy supply markets is more important than ever, and as the number of participants to the market increase and competition develops, the need for transparency strengthens.

The purpose of this report is to deliver transparency for stakeholders and customers, providing readers with readily accessible information on our work and the energy sectors we regulate. It specifically focuses on the evolution and performance of NI regulated retail energy markets: electricity and natural gas. This publication is therefore one of the tools that we use to inform stakeholders and customers on the development of retail competition.

[1] http://www.uregni.gov.uk/publications/view/utility_regulator_publishes_retail_energy_market_monitoring_report/

The 2013 Annual Energy Retail Report is structured as follows:

Chapter 1 – Summary of the main points of the report.

Chapter 2 – The introductory chapter sets out the purpose of the document, where the information contained in the report comes from and the methodology used throughout the paper.

Chapter 3 – This gives a high level view of the evolution of the retail energy sectors towards competition. It also explains how this series of reports links with our other activities monitoring the retail energy sector in NI, and further work we intend to develop in this area.

Chapters 4 and 5 – These chapters include a set of basic indicators commonly used for monitoring purposes, and included in ERGEG guidelines[2], such as number of customers/connections, consumption, switching figures, market shares by suppliers, etc. They also include information on NI domestic prices, and how they compare to other EU countries, and on electricity non-domestic prices compared with EU countries.

These sections are complemented with the QTRs, which allow monitoring of competition development on a more frequent basis.

Chapter 6 – This section summarises some of the main points from the report, and describes some further work that we will be developing in the market monitoring area in the short/medium term, to achieve a more comprehensive framework to fulfil our monitoring duties.

The report also includes a glossary with the most relevant terms related to the energy retail markets.

2.2. Data sources, methodology and accuracy

The main data sources and methodology for this report are as follows.

Basic retail indicators

Electricity customer numbers, gas connections, consumption and market shares by suppliers are provided by the network companies, NIE, PNG and firmus.

Electricity switching analysis has been undertaken with inputs from NIE, and gas switching inputs are from PNG and gas suppliers.

Energy prices

The figures on electricity and gas domestic prices in the EU come from DECC Quarterly Energy Prices[3]. NI domestic prices for electricity and gas are collated internally.

- NI electricity domestic prices are represented through the Power NI regulated tariff, applicable to 79% of the domestic electricity customers at the end of 2012[4]. By the

[2] Guidelines of Good Practice on Indicators for Retail Market Monitoring for Electricity and Gas http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Customers/Tab1/E10-RMF-27-03_final%20GGP%20IRMM_12-Oct-2010.pdf

[3] http://www.decc.gov.uk/en/content/cms/statistics/publications/prices/prices.aspx

[4] We note that other suppliers may offer discounts to these regulated tariffs in NI.

end of Q2 2013, Power NI regulated tariff applied to 75% of the domestic customers in NI.

- Gas domestic prices in NI are represented through the Airtricity Gas Supply (AGS[5]) regulated tariff and the tariff for Ten Towns. The AGS regulated tariff was applicable to 80% of the domestic and small I&C connections at the end of 2012. By the end of Q2 2013, AGS regulated tariff applied to 76% of the domestic and small I&C connections in NI.

Data on European electricity domestic and non-domestic prices is sourced from Eurostat[6]. Gas domestic prices in EU are also sourced from Eurostat.

NI non-domestic electricity average unit prices are based on the figures submitted by the individual NI active suppliers in this market. The suppliers that currently provide this information are: Power NI, energia, firmus energy, Electric Ireland, Airtricity, Budget Energy and Lissan Coal Company (LCC).

The methodology used in these calculations is that one set up by EU regulations and followed by DECC in the production of its quarterly reports. This methodology:

- avoids confidentiality issues[7] related to non-domestic prices, as information is represented in average unit prices for NI per consumption band, with no individual supplier detail
- allows us to obtain data comparable to EU non-domestic electricity prices which is published bi-annually by Eurostat

For each calendar quarter we request from the active suppliers the following information, split into annual electricity consumption size bands (as set up in Directive 2008/92/EC):

- the **volume** of electricity sold to non-domestic consumers
- the **revenue** gained from the sale (in three categories: excluding all taxes, excluding VAT, and including all taxes)
- the **number** of I&C customers they supply in that particular size category

The volume and value amounts are used to calculate a NI quarterly volume and revenue/value gained per size band. We then calculate quarterly average revenue per unit per size band, and average the two relevant quarters to obtain six-month period figures.

We do not hold the actual price paid by customers across each size band. Instead, we calculate the revenue collected per unit in that particular size category. This is the equivalent to *average price* and will be referred to throughout this paper as *prices*.

We understand this is also the methodology DECC use to calculate prices for the UK as a whole, and the methodology also used by the EU members to report data to Eurostat every six months.

[5] Previously Phoenix Supply Limited (PSL) until June 2012, when it was purchased by Airtricity.

[6] Eurostat is the statistical office of the European Union (EU). Its task is to provide the EU with statistics at European level that enable comparisons between countries and regionshttp://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

[7] Supply prices in the non-domestic sector are commercially confidential, especially in the larger end of the non-domestic market, where there are a smaller number of active suppliers, prices are linked to supplier selling/marketing activities and the very individual contracts they have with each customer.

To avoid any impact on confidentiality, due to the very small number of actual NI customers and suppliers involved in the supply of the two larger size bands (with annual consumption of between 20,000 and 69,999 MWh and annual consumption between 70,000 and 150,000 MWh), we have amalgamated these two categories into one.

For the first time in NI, in March 2013, we published comparisons for 2011 between NI non-domestic electricity prices and those for EU-15 in the *NI electricity prices: data and comparisons Information Paper* [8]. Then, In November 2013, we published the *Follow-up paper on Northern Ireland's electricity price transparency*[9], which followed from the March paper and continues to increase transparency.

The follow-up paper discussed the main issues arising from the original March paper, key consultation points and findings, and commented on the way forward in the form of a list of actions to address some of the issues.

As announced in the above Information Paper, we will continue to update the NI non-domestic electricity price comparisons, and will publish them on an ongoing basis in our QTRs. We will also publish the annual comparisons in this Energy Retail Report.

Accuracy of information and methodology

One of our key concerns is to make sure the data we receive from our sources is robust, clear and correct.

To ensure the information received from suppliers is accurate, especially the figures received from suppliers to calculate NI non-domestic electricity prices, we corroborate the data on their returns, and perform audit/cross checks of them. Throughout the process, we also ensure our methodology is consistent with DECC/Eurostat.

We would like to thank network companies and suppliers for their effort in providing all this information, and remind them that we depend on the information provided to us. It is therefore important that the figures submitted for these purposes are accurate and sent in a timely fashion.

[8] http://www.uregni.gov.uk/uploads/publications/Electricity_Pricing_Paper_website_-_March_2013.pdf
[9] http://www.uregni.gov.uk/uploads/publications/Follow_up_paper_electricity_price_transparency_-_4_Nov_2013.pdf

3. Electricity and gas energy retail sectors

3.1. Development of competition

The 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 Directives[10] 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.

Also, the national statutory remit given to us places a high value on effective competition as a means to deliver consumer benefits. Following all the above, we have actively pursued a policy of creating a fertile environment for greater electricity and gas supply[11] competition.

Whilst there has been a demonstrable level of competition in the electricity market for business customers, household-level customers had previously no choice of electricity suppliers. The only supplier in the domestic electricity sector was Power NI until June 2010, when Airtricity entered this market offering supply first to the customers paying by credit and, a year later, to the keypad sector of the market. Since then, more suppliers have entered the domestic electricity market, and there are now five domestic suppliers.

2012 saw two new entrants to the non-domestic electricity sector – Vayu and Lissan Coal Company (LCC). There are now eight non-domestic electricity suppliers

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 five active gas suppliers in the non-domestic sector: AGS, firmus energy, Energia, VAYU and Electric Ireland.

Competition in the gas domestic sector in the Phoenix Natural Gas (PNG) distribution area started in November 2010, with firmus entering the market.

For the Ten Towns[12] connected to the gas network outside of the Greater Belfast and Larne area, firmus energy has retained the exclusive rights to supply gas to all customers until October 2012, when this area opened to competition for the large non-domestic customers[13].

Table 3 shows when competition effectively started in each of the energy market segments, and details on when the areas still supplied by one incumbent supplier will be open to competition.

[10] 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.
[11] The UR currently regulates the electricity and natural gas supply markets; not the home heating oil market.
[12] Antrim, Armagh, Ballymena, Ballymoney, Banbridge, Coleraine, Craigavon, L'Derry, Limavady and Newry.
[13] http://www.uregni.gov.uk/uploads/publications/2011-02-21_Decision_paper_firmus_exclusivity.pdf

Table 3 Energy Competition Opening

Electricity	
Domestic	June 10: Airtricity entered the domestic credit segment. Oct 10: firmus started supplying Ulster Farmers' Union members. May 11: Airtricity entered the domestic keypad segment. June 11: Budget Energy entry. Oct 11: Electric Ireland entered the domestic sector.
Non-domestic	Industrial electricity customers become eligible to change supplier from 1999. From 2005, small and medium businesses became eligible too. Feb 12: VAYU enters the non-domestic market Apr 12: LCC enters the non-domestic market
Gas (Greater Belfast and Larne area)[14]	
Domestic	Incumbent supplier since Sept 1996: AGS[15] July 10: firmus entered this market segment.
Non-domestic	Incumbent supplier since Sept 1996: AGS Nov 06: Energia entered the daily metered I&C market Sep 08: firmus energy entered the I&C market Mar 09: VAYU entered the small I&C market May 13: Electric Ireland entered the daily metered I&C market
Gas (10 Towns)[16]	
Domestic and non-domestic small users	Will open to competition from Apr 2015
Large non-domestic Users	Open to competition from Oct 2012. Jan 13: AGS entered this market

Source: UR

We would welcome further entry into our energy markets by other suppliers, and increasing market activity in all market segments. However, we believe that a strong regulatory framework should remain in place until we believe that all customer groups in NI can realistically benefit from effective competition. Where they do not benefit, we need to ensure that the regulatory structure continues to offer customer protection to the same level as it affords consumers today.

3.2. Retail market monitoring framework

The current basic retail monitoring framework in place for the electricity and gas sectors was conceived in 2009. Since then, it has been developed and widely used for monitoring and delivering transparency and, over the years, related information has been released through our annual and quarterly retail reports. This monitoring regime currently includes a set of essential

[14] The Greater Belfast area, including Holywood, Bangor, Newtownards, Belfast, Newtownabbey, Carrickfergus, Lisburn and Larne

[15] Formerly called Phoenix Supply Ltd (PSL)

[16] In 2005 firmus energy was awarded a licence to develop the natural gas network in 10 towns across NI, from L'Derry to Ballymena, and from Antrim to Newry.

indicators currently used by other National Regulatory Authorities (NRAs) in Europe, such us: market shares, number of active suppliers, switching rates and information on prices.

However, to monitor the retail energy sector more effectively, we need to increase the information we collect and analyse. We intend to develop a wider monitoring framework (Retail Energy Market Monitoring - REMM) that will help us to continue to understand if the market is working, if it is working for all consumers sectors/size bands, if competition is being supported, etc.

In the near future, we will decide, draft and consult on the suggested REMM framework, described in greater detail in section 6.

3.3. Structure of the Northern Ireland energy sector

The NI energy sector consists of the wholesale market, the networks and the retail market.

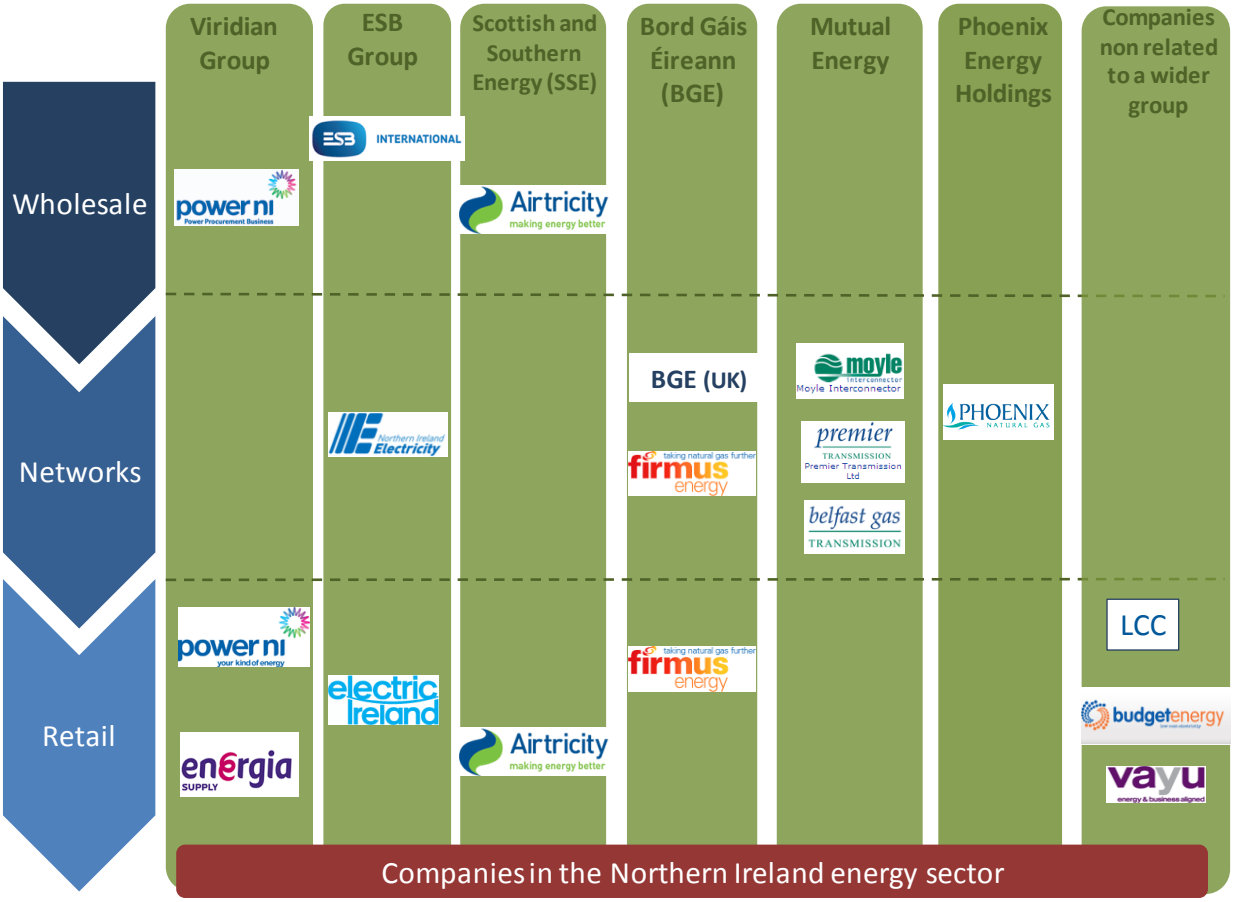
The electricity wholesale market is where the generators and suppliers trade with each other. Key regulatory issues are electricity generator issues and licenses, SEM (Single Electricity Market), economic purchasing obligations, hedging and wholesale energy purchasing strategies.

The networks are the 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.

Retail markets are where the active suppliers trade with each other. Key regulatory issues in the retail sector are developing effective competition that can benefit all customers, price control of the former incumbent supplier and customer protection in terms of price and service quality.

The figure below shows an overview of the main agents in the gas and electricity sectors in NI. Note that some of these are also active participants in the RoI or GB energy markets.

Figure 1 Main agents in the energy sector in Northern Ireland



Source: Companies websites and UR

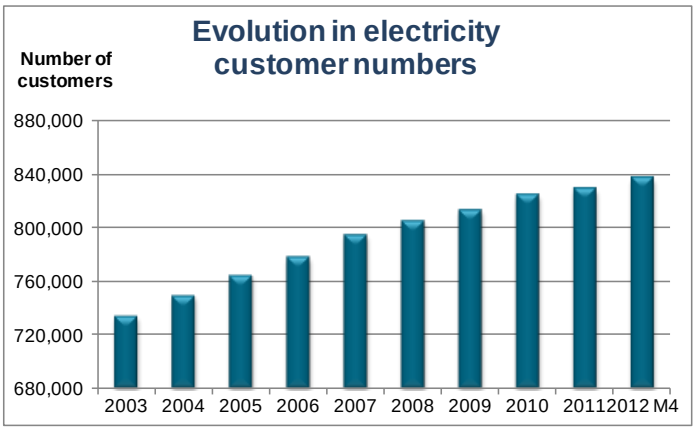
For further information on each electricity and gas licence visit www.uregni.gov.uk or for further information on the companies, refer to their individual websites.

4. Electricity

4.1. Customer numbers

By the end of 2012, there were more than 837,000[17] electricity customers in NI. Approximately 93% of these are domestic customers, while the non-domestic customers are around 7% of the total NI electricity customer base. The evolution in the number of customers per calendar year is shown in Figure 2.

Figure 2 Northern Ireland electricity customers

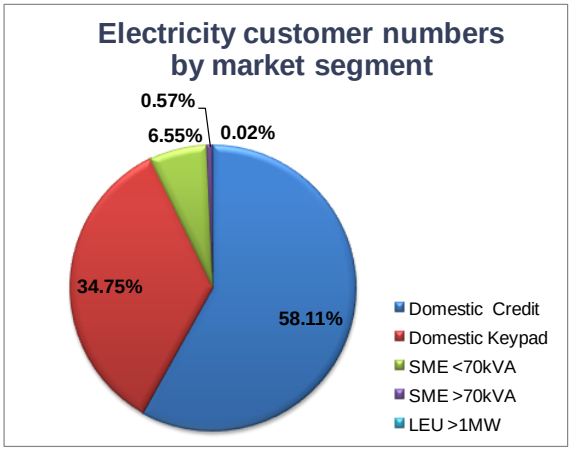


Source: NIE

Further breakdown of customer numbers at the end of 2012 by market segment is shown below, in absolute and relative figures. Within the domestic sector, the split shows that 37% of customers use keypad meters, while 63% are standard credit customers. In the non-domestic sector the largest number of customers is in the Small and Medium Enterprises (SME) category, which includes businesses with demand below 1MW per annum. This category further splits into those who consume less and more than 70 kVA, which aligns with the Statement of Charges for Use of the Electricity Distribution System[18].

Figure 3 Customer numbers by market segment at the end of 2012

2012	Customer Numbers
Domestic Credit	486,401
Domestic Keypad	290,867
SME <70kVA	54,822
SME >70kVA	4,813
LEU >1MW	192
Total	**837,095**

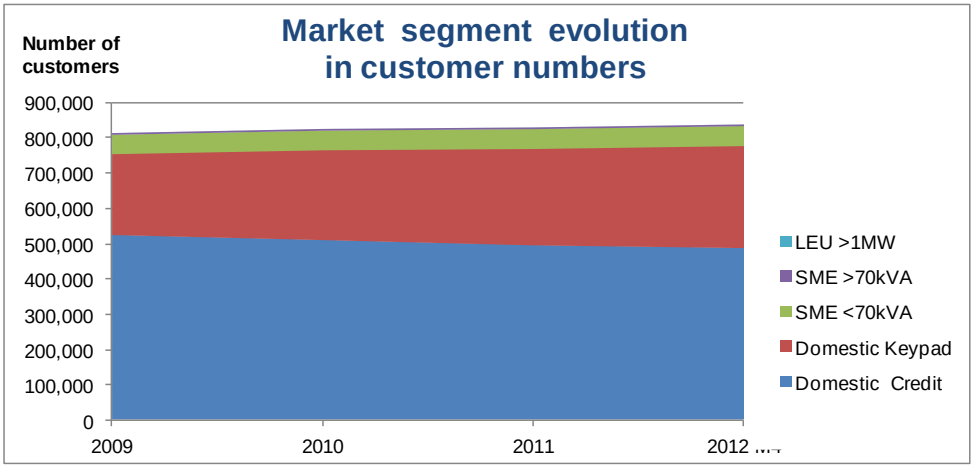


Source: NIE

[17] Note that this figure varies from the correspondent QTR, as it relates to data NIE review four months after the relevant period, as opposed to data obtained right after the relevant period.
[18] http://www.nie.co.uk/suppliers/pdfs/DUoS_Statement_Oct10%20-%20Sept11.pdf

Figure 4 shows the evolution in customer numbers since 2009 by customer segment. The percentages by market segment have remained relatively stable over the last years, with a progressive increase of keypad customers. This method of paying upfront for your energy may be more popular in times of economic downturn.

Figure 4 Evolution in customer numbers by market segments

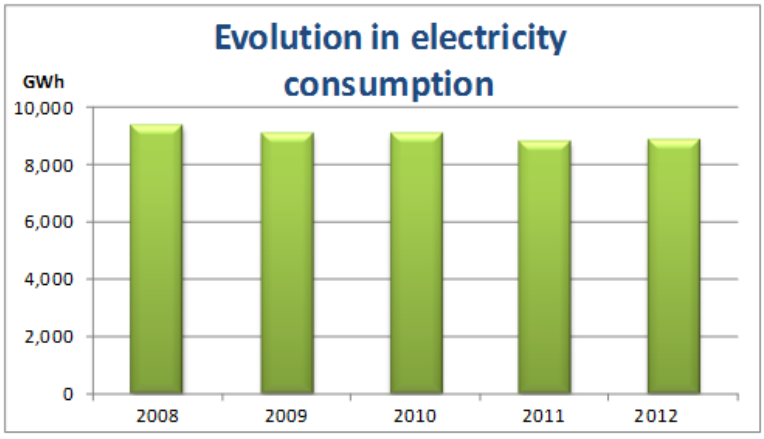


Source: NIE

4.2. Consumption

NI total electricity consumption since 2008 is shown in Figure 5. Traditionally, electricity demand in NI increases at an average rate of 2% per annum. However, the last years have shown smaller increases and even slight decreases, probably due to generally poor economic conditions.

Figure 5 Evolution in electricity consumption

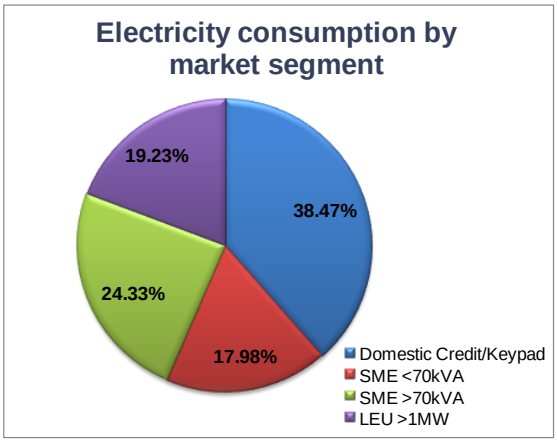


Source: NIE

A more detailed breakdown of consumption between the different market segments (in the last complete year we currently hold data for) is shown below. During 2012, the electricity consumption was 8,209 GWh, split 38% in the domestic sector and 62% in the non-domestic sector. Within the non-domestic sector, the consumption is similarly spread across the three different sub-segments. The SME <70 kVA segment accounts for 18% of the NI total volume, SME>70 kVA consumes 24% and LEU accounts for 19%.

Figure 6 Consumption by market segment in 2012

2012	Consumption (GWh)
Domestic Credit/Keypad	3,119.6
SME <70kVA	1,457.8
SME >70kVA	1,972.6
LEU >1MW	1,559.0
TOTAL	**8,109.0**

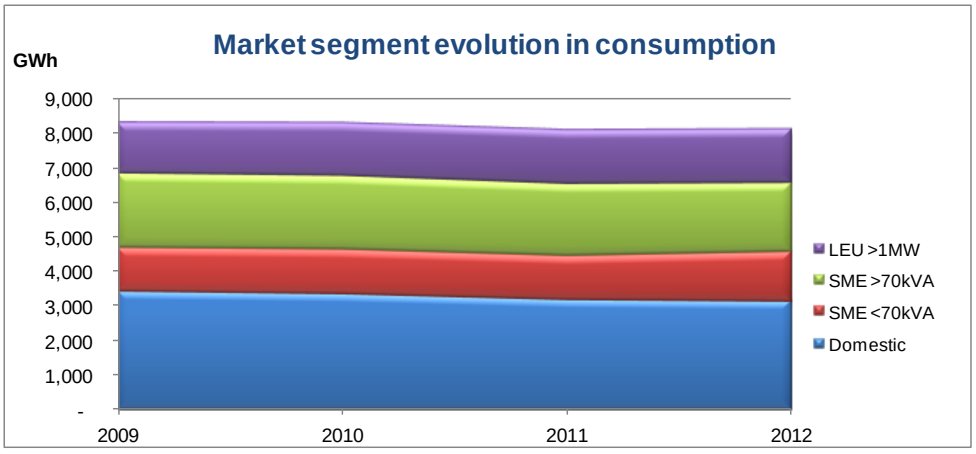


Source: NIE T&D

The trend in annual consumption by market segment is quite stable through the years, as can be seen in Figure 7. Since 2009, around 40% of the total NI consumption is domestic, and within the domestic sector, the keypad segment accounts for around 35% of the volume. There appears to be an annual progression towards an increase in customers with keypad meters.

The non-domestic market consumes around 60% of the total NI volume. Within this sector, since 2009, the SME<70 kVA segment accounts for 15-18%, SME>70 kVA consumes 24-26% and LEU maintains its annual consumption share around 18-19%.

Figure 7 Evolution in customer numbers by market segment



Source: NIE

4.3. Active suppliers

There are currently 14 supply licences granted to different companies, but only eight suppliers were active in the electricity retail market at the end of 2012[19].

At the end of Q2 2013, there are eight suppliers active in the non-domestic sector, while five of them are also active in the domestic market: Power NI, Airtricity, Electric Ireland, firmus and Budget Energy.

4.4. Market shares

When promoting competition in the energy retail market, it is possible that the more concentrated the market is, the more likely that this market is not functioning well and therefore may not effectively protect customers.

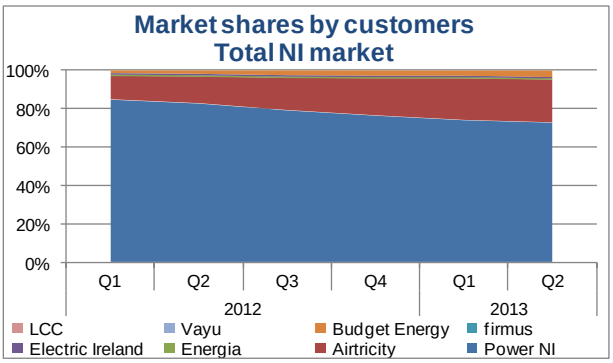
Consequently, the number of active suppliers and their associated market shares could be considered as one of the indicators of the evolution of competition.

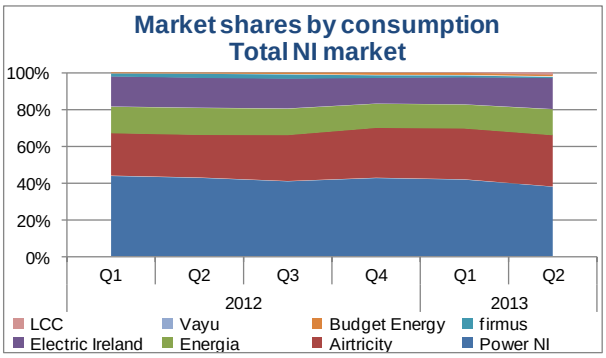
The tables below show absolute and relative market shares by customer numbers at the end of 2012, and by annual consumption over 2012, per market segment. The graphs show the quarterly evolution in market shares by both customers and consumption, in each of the electricity market segments.

Figure 8 Total NI retail electricity market shares, by customer numbers and consumption

2012 Total NI market	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	637,928	76.21%	3,423.9	42.22%
Airtricity	163,251	19.50%	2,020.9	24.92%
Energia	7,283	0.87%	1,142.1	14.08%
Electric Ireland	6,932	0.83%	1,306.6	16.11%
firmus	316	0.04%	137.4	1.69%
Quinn Energy	0	0.00%	0.2	0.00%
Budget Energy	21,328	2.55%	71.9	0.89%
Vayu	4	0.00%	3.8	0.05%
LCC	53	0.01%	2.2	0.03%
Total	**837,095**	**100%**	**8,109.0**	**100%**

[19] Quinn Energy exited the market in early 2012.





Source: NIE

In 2012, there were 4 suppliers with a market share higher than 10% in the whole electricity retail market in terms of volume.

The market share of the three largest suppliers was 83% in total – this figure implies that the market in 2012 is still quite concentrated.

This is particularly the case in the domestic market, where the concentration of market share enjoyed by the previously incumbent electricity supplier, Power NI, remains very high. However, from the start of effective competition in the domestic market in June 2010, the share of Power NI has been diminishing progressively. As shown in Figure 9, by the end of 2012 almost 80% of the domestic credit customers are being supplied by Power NI, in comparison to 78% by the end of Q2 2013.

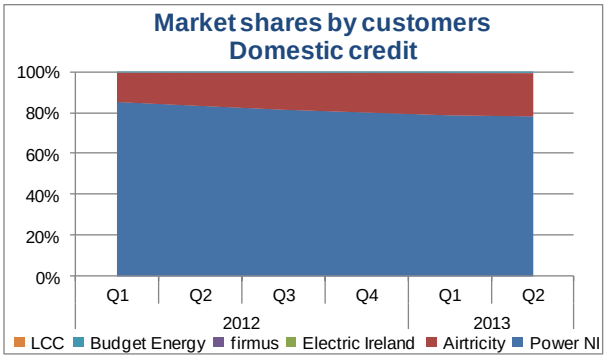
Competition in the prepayment electricity sector began in May 2011, when Airtricity launched their tariff offerings to keypad customers. A few months later, Budget Energy entered the domestic market including the keypad segment. There is still high degree of concentration in the keypad segment, where Power NI supplies 76% of the customers. This concentration is progressively changing in this sector of the market, and at a faster rate than the credit segment. There has been a notable quarterly increase in Airtricity and Budget Energy share of the keypad market by customer numbers. By the end of 2012 Airtricity held more than 17% of the keypad volume, and Budget Energy had acquired just over 6%.

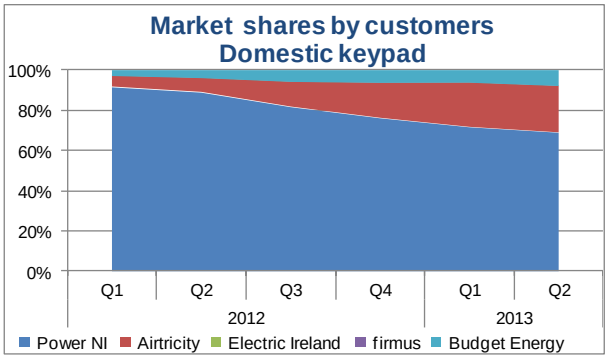
Despite the developing competition from new suppliers, Power NI remains very dominant in the domestic sector, and hence the UR retains the price controls on Power NI's domestic tariffs.

Figure 9 Domestic market shares by customer numbers

2012 Domestic credit	Customer numbers	Market share (customers)
Power NI	387,936	79.76%
Airtricity	95,581	19.65%
Energia	0	0.00%
Electric Ireland	185	0.04%
firmus	254	0.05%
Quinn Energy	0	0.00%
Budget Energy	2,439	0.50%
Vayu	0	0.00%
LCC	6	0.00%
Total	**486,401**	**100%**

2012 Domestic keypad	Customer numbers	Market share (customers)
Power NI	220,997	75.98%
Airtricity	50,932	17.51%
Energia	0	0.00%
Electric Ireland	139	0.05%
firmus	0	0.00%
Quinn Energy	0	0.00%
Budget Energy	18,799	6.46%
Vayu	0	0.00%
LCC	0	0.00%
Total	**290,867**	**100%**



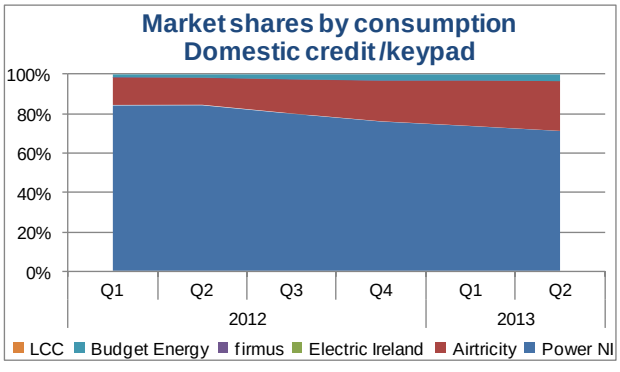


Source: NIE

Data for consumption in the domestic market[20](credit and keypad figures are aggregated into one category) are presented in Figure 10, which reflects the same trends that have been described above. Power NI retains a large share of the market in terms of volume, with more than 80%. Airtricity retains 17% and Budget Energy 2% in terms of volume in the domestic sector.

Figure 10 Domestic market shares by consumption

2012 Domestic credit/keypad	Consumption (GWh)	Market share (consumption)
Power NI	2,515	80.61%
Airtricity	526	16.86%
Energia	0	0.00%
Electric Ireland	2	0.05%
firmus	10	0.31%
Quinn Energy	0	0.00%
Budget Energy	68	2.18%
Vayu	0	0.00%
LCC	0	0.00%
Total	**3,120**	**100%**



Source: NIE

[20] 2012 annual figures relate to NIE reviewed data. Note that these figures varies from the correspondent QTR, as it relates to data NIE review four months after the relevant period, as opposed to data obtained right after the relevant period.

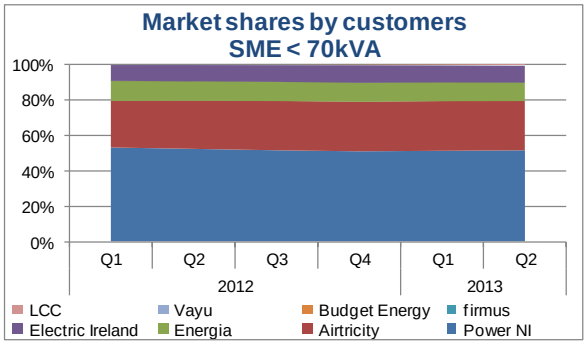
Competition in the non-domestic electricity market is more mature than in the domestic sector. A further two suppliers entered this market in 2012, Vayu and LCC.

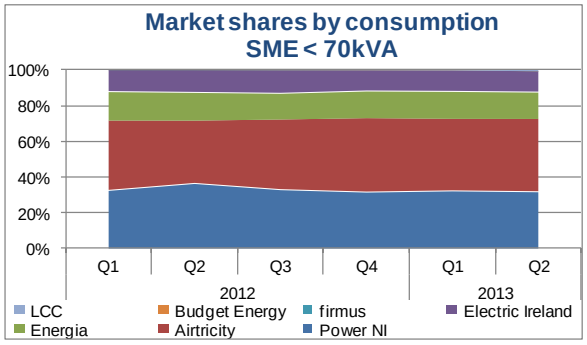
There were seven active suppliers in the small I&C (less than 70kVA) segment in 2012, and four of these had a share of more than 10% by volume.

Energia is owned by the same ultimate controllers as Power NI which is relevant when considering market power. The combined market share in 2012 for the suppliers who belong to the Viridian Group, Power NI and Energia, were 62% by customer numbers, and 53% by consumption in the SME < 70 kVA market segment.

Figure 11 SME < 70kVA market shares, by customer numbers and consumption

2012 SME <70kVA	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	27,786	50.68%	575.7	39.49%
Airtricity	15,325	27.95%	522.2	35.82%
Energia	6,178	11.27%	198.5	13.61%
Electric Ireland	5,403	9.86%	154.7	10.61%
firmus	21	0.04%	2.5	0.17%
Quinn Energy	0	0.00%	0.0	0.00%
Budget Energy	87	0.16%	4.0	0.27%
Vayu	0	0.00%	0.0	0.00%
LCC	22	0.04%	0.2	0.02%
Total	**54,822**	**100%**	**1,457.8**	**100%**





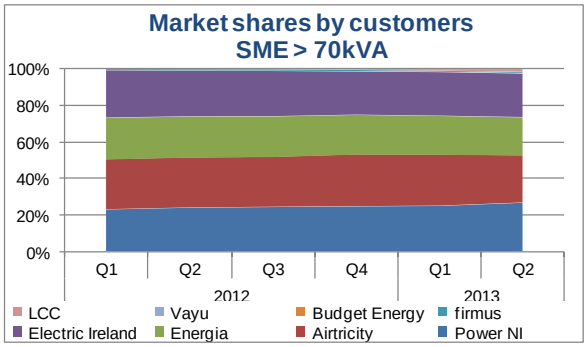
Source: NIE

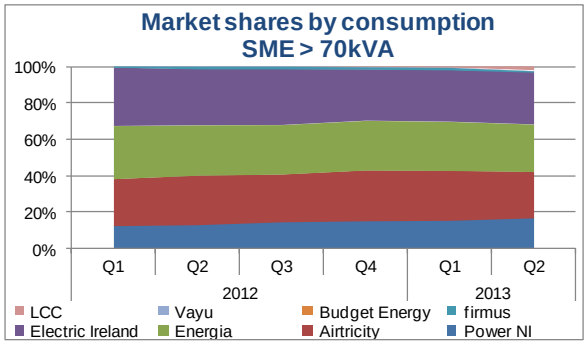
In 2012 there were eight active suppliers in the I&C segment where customers consumed over 70 kVA. This increase of two suppliers, from the six suppliers active in 2011 is attributable to the entry of Vayu and Lissan Coal Company.

Over 2012, the shares of the four main suppliers are quite similar in terms of customer numbers, ranging from 22% to 28%. This interval has a much wider spread when referring to the market shares by consumption (ranging from 11% to 39%) due to the fact that customer usage is much higher in this category.

Figure 12 SME > 70kVA market shares, by customer numbers and consumption

2012 SME >70kVA	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	1,186	24.64%	268.4	13.61%
Airtricity	1,362	28.30%	539.0	27.33%
Energia	1,044	21.69%	528.3	26.78%
Electric Ireland	1,154	23.98%	610.9	30.97%
firmus	36	0.75%	20.5	1.04%
Quinn Energy	0	0.00%	0.2	0.01%
Budget Energy	3	0.06%	0.1	0.00%
Vayu	4	0.08%	3.8	0.19%
LCC	24	0.50%	1.4	0.07%
Total	**4,813**	**100%**	**1,972.6**	**100%**





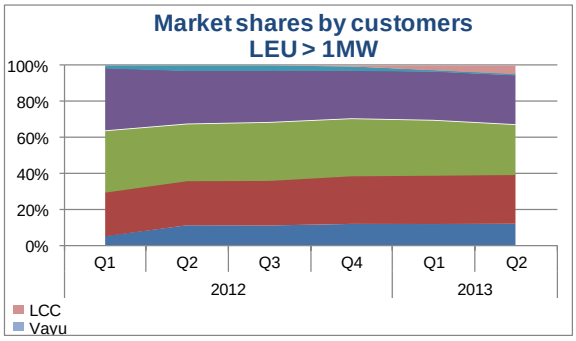
Source: NIE

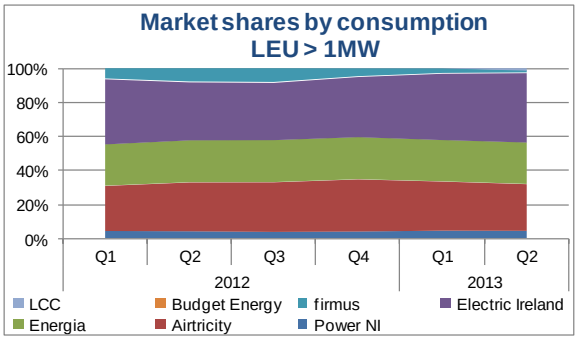
In 2012 the LEU market segment represented 0.02% of the total customer base in NI, with 192 customers. Their total consumption was 19% of the total NI electricity consumption in that year.

There were six active suppliers in this market segment in 2012. Quinn Energy withdrew from the market at the start of 2012, whilst LCC entered this segment. Three of the suppliers, Airtricity, energia and Electric Ireland, together have shares of over 25% in terms of both customer numbers and consumption. Power NI and firmus hold 4% and 7% of the volume of this market respectively, while LCC owns a small share, of less than 1% by volume.

Figure 13 LEU > 1 MW market shares, by customer numbers and consumption

2012 LEU >1MW	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	23	11.98%	65.0	4.17%
Airtricity	51	26.56%	433.8	27.83%
Energia	61	31.77%	415.3	26.64%
Electric Ireland	51	26.56%	539.5	34.61%
firmus	5	2.60%	104.8	6.72%
Quinn Energy	0	0.00%	0.0	0.00%
Budget Energy	0	0.00%	0.0	0.00%
Vayu	0	0.00%	0.0	0.00%
LCC	1	0.52%	0.5	0.03%
Total	**192**	**100%**	**1,559.0**	**100%**





Source: NIE

4.5. Switching activity

A switch is a movement of a customer from one supplier to another, made as a result of a free choice by the customer. Switching activity is defined as the number of switches in a given period of time. A switch can include any of the following:

- A switch to a competitive company of the incumbent and vice versa
- A re-switch: when a customer switches for the second or subsequent time, even within the same measured period of time
- A switch-back: when a customer switches back to his/her former or previous supplier

A change of tariff with the same retailer is not equivalent to a switch (for example moving from a fixed term contract to a flexible contract with the same supplier is not classified as a switch).

Electricity domestic switches in NI have continued to increase, particularly after the implementation of the Enduring Solution, in May 2012. The Enduring Solution completely removed all switching constraints in the electricity sector. The increase in switching activity is very notable in June 2012, after the Enduring Solution was implemented and systems bedded down.

Figure 14 shows the changes of supplier[21] (CoS's) on a monthly basis in the whole market in NI, for 2012 until the most available figure in 2013, split by domestic and non-domestic market.

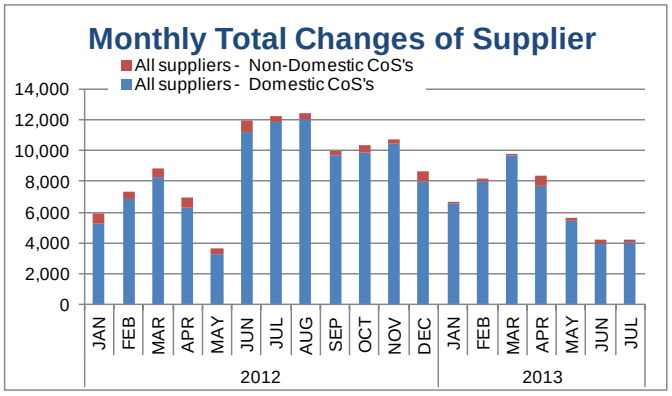
There were more than 109,000 total CoS's in 2012. The number of domestic CoS's increased significantly from June 2012 onwards due to the successful implementation of the ES, subsequently decreasing at the end of the year. However, the non-domestic CoS's maintained approximately the same pace, slightly increasing at the end of 2012.

Over the first seven months of 2013 both, domestic and non-domestic, CoS's have decreased compared to the same period of 2012.

The NI electricity switching rate for 2012 (for both domestic and non-domestic) – measured as the number of CoS's in 2012 by the number of customers at the end of 2012 – was 13%. Electricity switching rate in NI for 2011 was 8%.

[21] Changes of Supplier (CoS's) reflect the gains less losses of different suppliers in the market. They do not include new registrations.

Figure 14 Domestic and non-domestic electricity switches



2012	Domestic CoS's	Non-Domestic CoS's
JAN	5,308	571
FEB	6,842	503
MAR	8,300	569
APR	6,298	700
MAY	3,285	379
JUN	11,217	745
JUL	11,834	420
AUG	12,029	439
SEP	9,687	296
OCT	9,912	465
NOV	10,423	340
DEC	8,042	604
Total	103,177	6,031

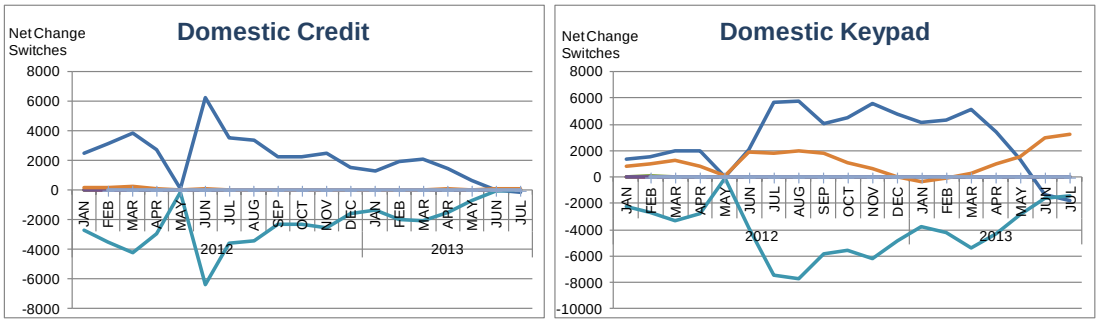
Source: NIE

Domestic CoS's in 2012 were approximately 95% of total CoS's in NI. The figures below analyse the trend of switching across the different market segments.

Figure 15 shows the net change of electricity switches (gains less losses) in the domestic sector. These are split by credit (non-prepayment) and prepayment options and by anonymised supplier, from January 2012 to the last available figures of 2013. As previously stated it is noticeable how the prepayment sector has been more active than the credit sector in terms of switching since the start of 2012.

The NI domestic switching rate for 2012 (measured as the number of domestic CoS's in 2012 by the number of domestic customers at the end of 2012) was 13%. Domestic switching rate in 2011 was 8%.

Figure 15 Evolution in electricity switching activity by domestic market segments

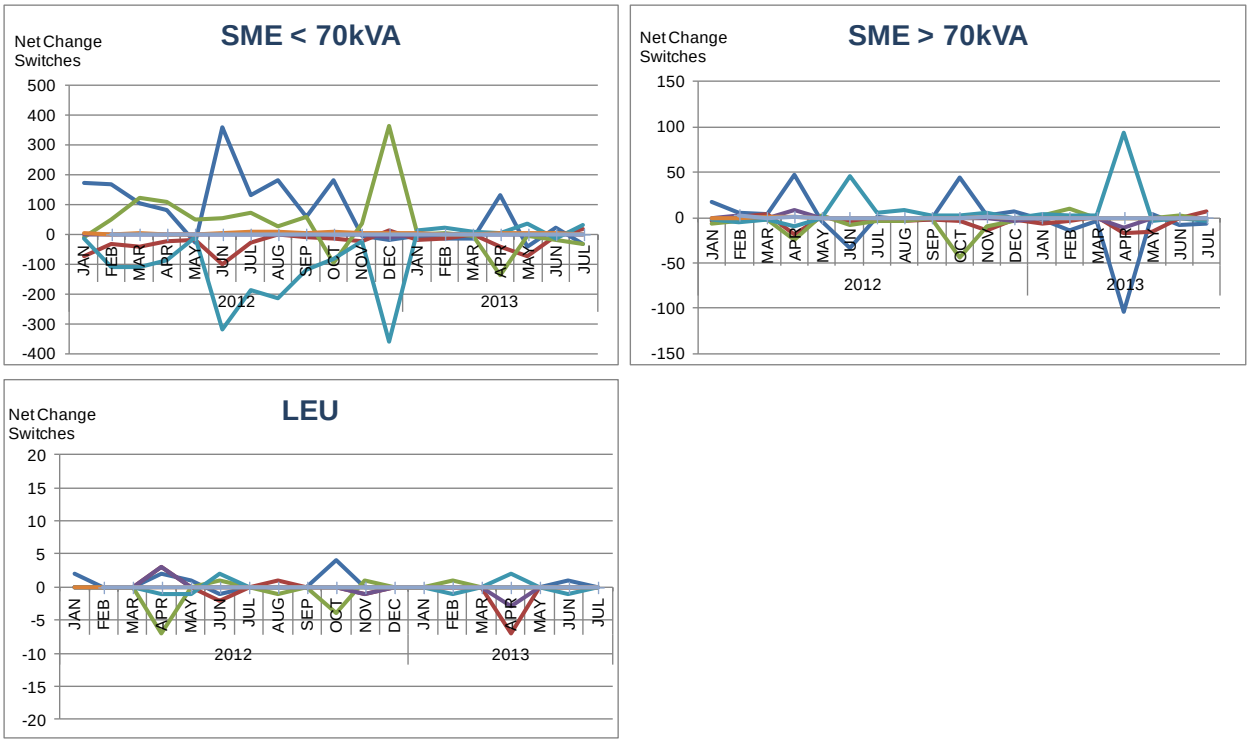


Source: NIE

Non-domestic CoS's accounted for approximately 5% of total CoS's in NI in 2012. The switching activity in the electricity non-domestic market is quite diverse and depends not only on the specific market segment, but also on the number of customers in those segments. The SME<70kVA category accounts for the majority of the CoS's (this is the largest I&C category by customer number) c90%, while the other two segments, SME>70kVA and LEU, represent less than 10% of the non-domestic CoS's.

The non-domestic switching rate for 2012 was 10%, compared to 12% for 2011. Figure 16 illustrates that the smaller end of the sector has the most switching activity.

Figure 16 Evolution in electricity switching activity by non-domestic market segments



Source: NIE

4.6. Methods of payment

All electricity suppliers are obligated, under their supply licence, to offer their domestic customers three payment methods[22]. Therefore, domestic customers in NI are able to avail of one of the following methods to pay for their electricity:

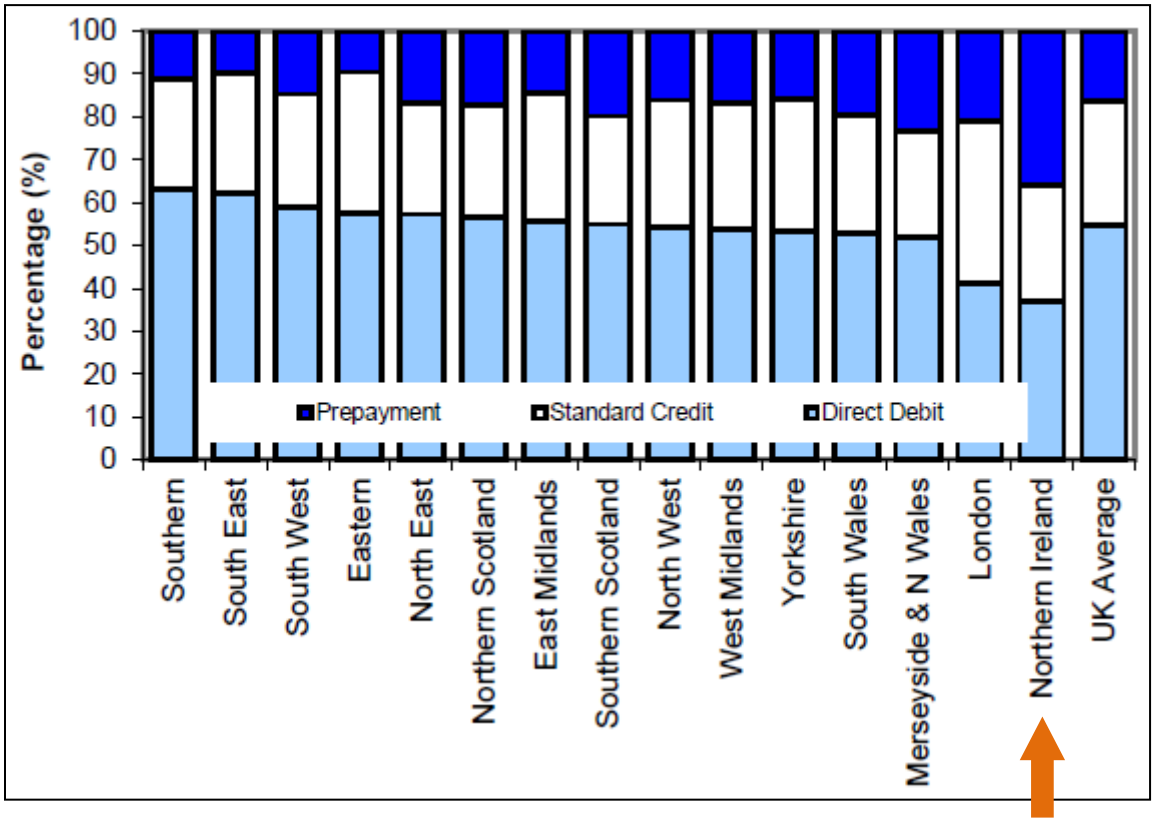
- Prepayment (or a pay-as-you-go meter) where customers can top-up their electricity as they foresee their short-term consumption. This is also referred to as having a keypad meter.
- Standard credit, where for example the supplier charges the customer each quarter with an amount equal to the quarterly 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

[22] Paragraph 11 in condition 27, on Terms and Conditions of Electricity Supply Contracts, states that: "The Licensee shall ensure that its standard terms and conditions provide Domestic Customers with a choice of payment methods, including as a minimum making payment: (a) in arrears (at such frequency as is set out in the terms and conditions); (b) by direct debit (at such frequency as is set out in the terms and conditions); and (c) in advance through a prepayment meter.

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 17 Regional variation of payment method for standard electricity (March 2013)



Source: DECC. Quarterly Energy Prices, June 2013

In Northern Ireland prepayment meters are chosen by many domestic customers in preference to credit meters for reasons such as dealing with any debt problems, their ease of use and their help in household short term budgeting. They are also favoured by the supply companies in many circumstances. Therefore, NI has the highest percentage of prepayment customers in the UK, being around 37% at the end of 2012, and consequently the lowest percentage of customers paying by direct debit.

The prepayment method is the slightly more expensive option in England, Wales and Scotland, whilst in Northern Ireland the standard credit payment method is more expensive. This could be another reason as to why prepayment is more popular in Northern Ireland.

4.7. Electricity prices

We directly regulate the electricity and gas prices of suppliers who are in a dominant monopoly position in the domestic and small business sectors of the Northern Ireland market.

In electricity, Power NI tariffs are regulated for customers who consume less than 150 MWh per annum.

We act on behalf of consumers to ensure costs and prices are as low as they can be, while allowing regulated companies a specified supply margin in order to run their businesses.

4.7.1. Electricity domestic prices

Make up of a typical domestic bill

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 this group of customers pay. The tariffs are reviewed (usually annually, but it could be more often if necessary), with new tariffs usually commencing on 1 October each year. However this year there was a midyear review of tariffs that took effect from the 1 July 2013 [23].

Electricity retail tariffs, in terms of what customers pay, are made up of a number of components that are subjected to regulatory scrutiny.

[23] Regulatory briefing on Power NI's tariff review - July 2013 (published in May 2013): http://www.uregni.gov.uk/publications/briefing_paper_for_power_ni_july_2013_tariff_review

Table 4 Electricity tariff components

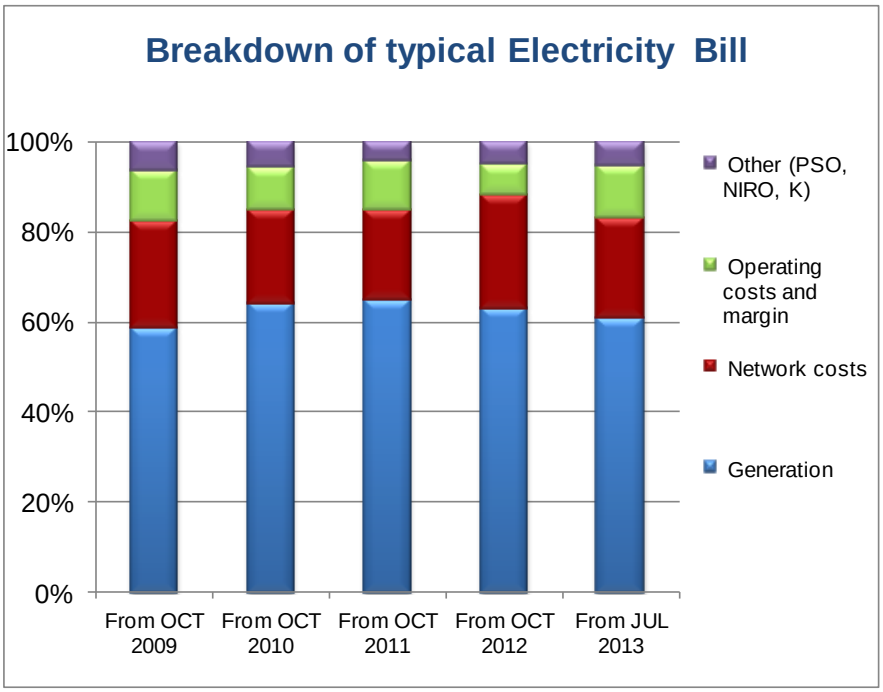
ELECTRICITY	Service	Regulatory Instruments/Scrutiny
Wholesale costs	Generation costs (costs of procuring electricity), capacity charges, imperfections (cost of electricity constraints) and market operator charges.	Competitive and regulated wholesale market, approval of Power NI hedging methodology and annual approval of Power NI wholesale costs by the Regulator. The capacity pot is regulated, being consulted on annually. SEMO Revenue & Tariffs 2012.
SSS charges	For system planning, operation and dispatch (SONI).	SONI Statement of Charges and 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. New Control being put in place for the period 2012-2017.
Supplier charges	Costs to supply electricity to customers e.g. billing.	Power NI 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.	The Power NI margin is determined by the UR as part of the price control.

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 components regardless of who their supplier is.

[24] Statement of charges for connection to the Northern Ireland Electricity distribution system (effective from 1 October 2013) http://www.nie.co.uk/documents/Connections/NIE-Distribution-Connection-Charging-Statement-Oct.aspx

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.

Figure 18 Make-up of regulated electricity bill in NI



Source: UR and Power NI

The relative importance of the various elements that make up final bills is shown in Figure 18, which illustrates the percentage components of the electricity bill for regulated customers. It relates to the required revenues of Power NI for all of its regulated customers (for the last tariff years).

Note the relative importance of generation/wholesale costs in the final regulated prices, which account for more than 60% as an annual average every year from October 2009. The costs of the actual supply companies themselves (operating costs and margin) average around 10%, being 12% in the last tariff review (to apply from 1 July 2013).

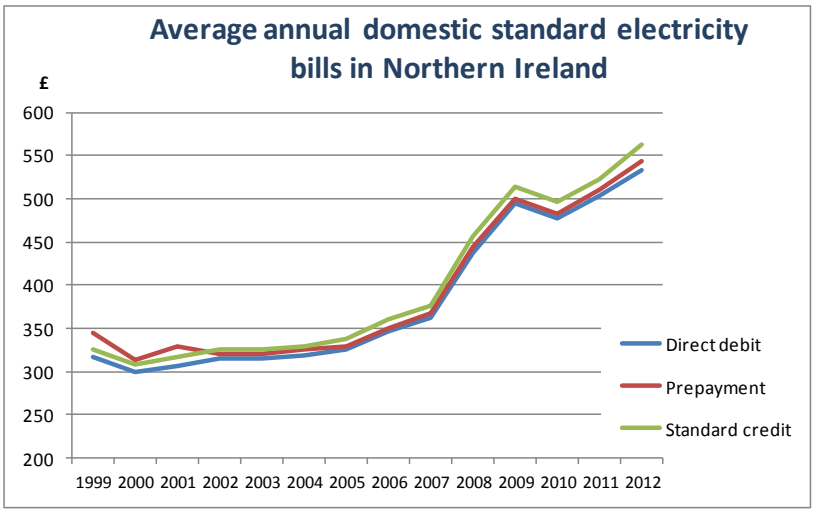
Domestic electricity prices in NI

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 publishes a range of tariffs approved by the UR. Alternative suppliers compete for customers against these published tariffs.

The last tariff review[25] was published in May 2013, with effect from 1 July 2013. It set a 17.8% increase in the Power NI tariff for domestic and small non-domestic electricity customers. The previous review in October 2012 set a 14.1% decrease.

Figure 19 shows the average annual standard bills for NI domestic customers since 1999. These bills have been calculated assuming an annual consumption of 3,300kWh, and include VAT.

Figure 19 Average annual domestic standard electricity bills in Northern Ireland



Source: DECC, Quarterly Energy Prices.

Domestic electricity prices comparison with GB – payment methods

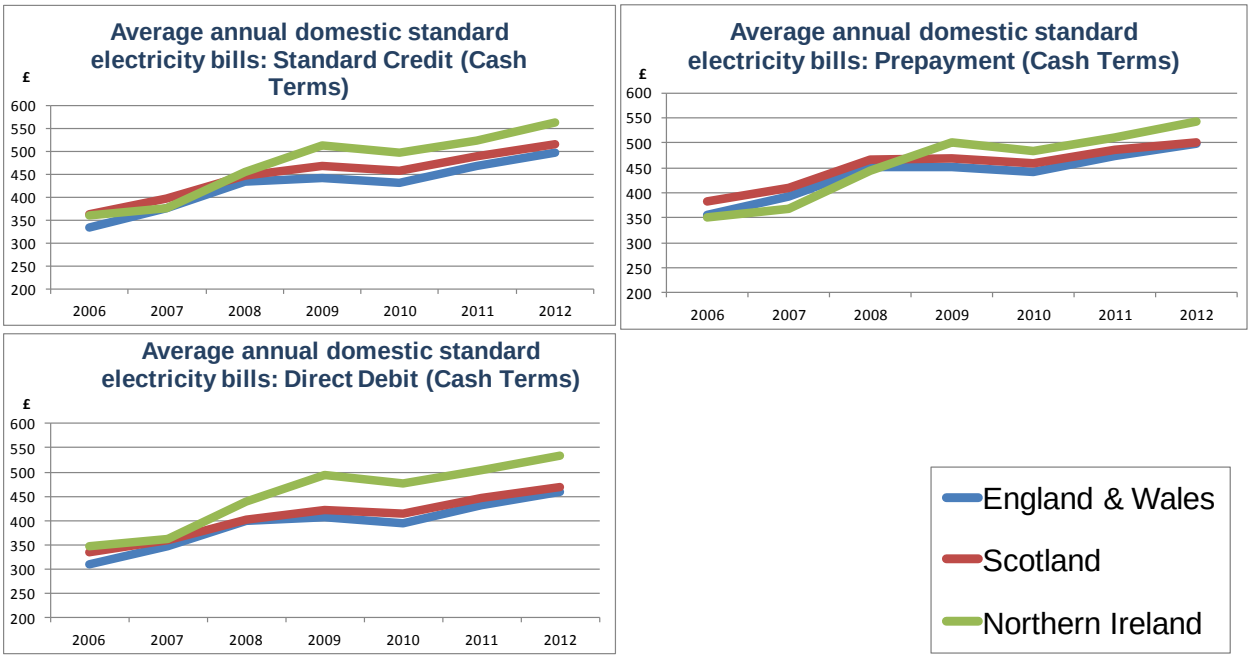
Historically, electricity prices in NI have tended to be higher than GB. Reasons for this differential could be:

- Higher energy transport costs
- Economies of scale in GB owing to the size of the market there compared to NI
- The additional cost of long- term legacy generation and associated contracts (not present in GB markets)
- The different fuel mix in GB (i.e. NI has a reliance on gas while GB's generation mix is spread between nuclear, gas and coal)

The difference in domestic prices between NI and GB can be seen in detail in the following charts. These show the average annual standard bills, for a typical domestic customer, for UK countries in the domestic sector, and by different payment methods: direct debit, standard credit and prepayment.

[25] http://www.uregni.gov.uk/uploads/publications/Retail_Tariff_Background_Briefing_May_2013.pdf

Figure 20 Average annual domestic standard electricity bills for UK countries £



Source: DECC, Quarterly Energy Prices

These bills relate to the total amount charged during the year, rather than a bill based on the latest prices. The bills have been calculated assuming an annual consumption of 3,300kWh, and including VAT.

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.

Domestic electricity prices comparison with EU

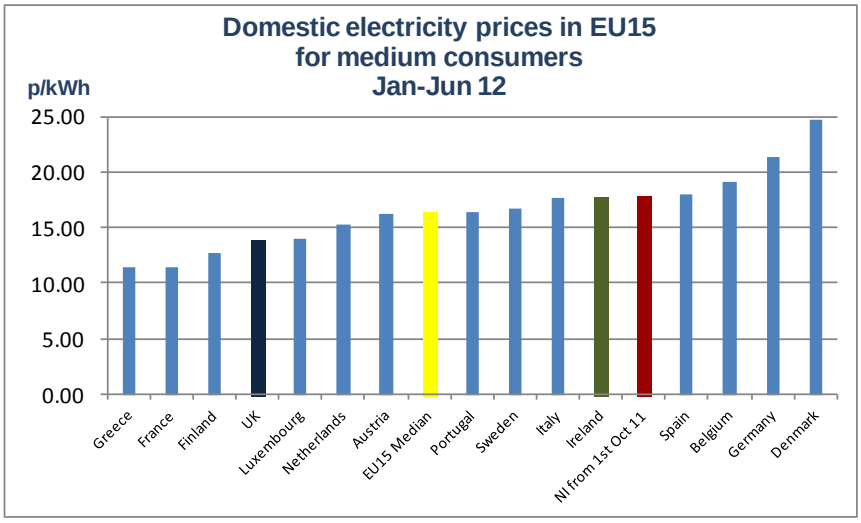
The following figure compares Power NI regulated tariff, for the relevant period, with those prices for other countries in Europe.

The figures for NI are prices for an average domestic customer consuming 3,300 kWh per annum that applied:

- For the period Jan – Jun 2012 (Figure **21**) — Tariff from 1 Oct 2011 (17.82 p/kWh)
- For the period Jul – Dec 2012 (Figure **22**) — Tariff from 1 Oct 2011 (17.82 p/kWh) and the tariff that applied from 1 Oct 2012 (15.31 p/kWh)

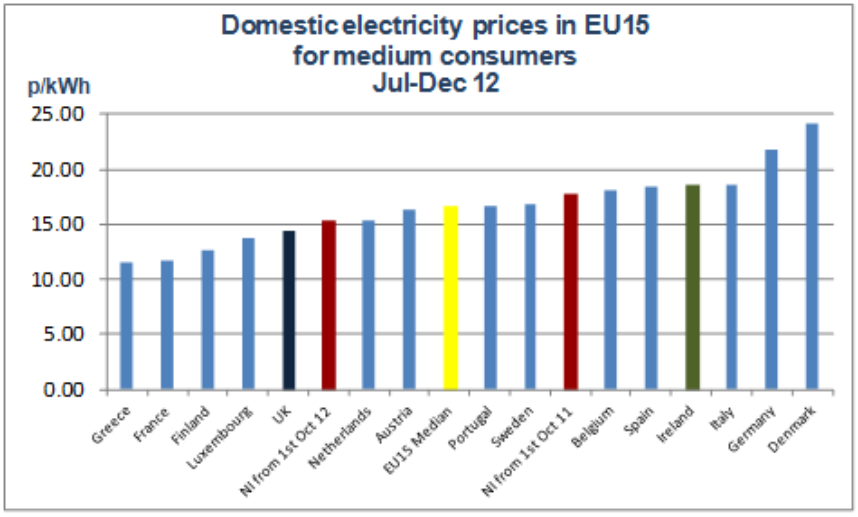
Comparative data for the EU members has been sourced from Eurostat, for medium consumers (2,500 – 4,999 kWh consumption per annum).

Figure 21 Domestic electricity price comparison at EU level (inc VAT) for Jan-Jun 2012



Source: Power NI and DECC (Eurostat)

Figure 22 Domestic electricity price comparison at EU level (inc VAT) for Jul-Dec 2012



Source: Power NI and DECC (Eurostat)

4.7.2. Electricity non domestic prices

As demonstrated in the previous section, domestic level price comparisons for NI are already available. For domestic consumers, regulatory scrutiny has been retained through price controls and the availability of tariffs approved by us.

However, the extent of regulatory scrutiny of the larger I&C market has been progressively reduced since 1999 (i.e. this market is not subject to regulatory price controls), and retail electricity prices in this sector are individually agreed between customers and suppliers. For many of these customers, especially the larger sized customers, following a tender exercise they each have individual contracts agreed with their supplier, often with unique terms and conditions (including price).

At present, all business customers who consume more than 150 MWh per year can obtain an individual quotation from each of the active electricity suppliers. As part of the 2014 Power NI supply price control review, the UR has proposed to retain the Power NI price control in the 0-50MWh/per annum non-domestic business sector but remove coverage in the 50-100 MWh/per annum and 100-150 MWh/per annum sectors. At the time of writing we are considering the consultation responses and expect to publish final decisions in December 2013.

The retail electricity prices paid by business customers secured in their contracts, largely depend on three main factors that determine the actual price that a specific customer will pay for its electricity supply. These are as follows:

- 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
- the voltage that the customer is connected. Lower voltage customers use more of the system than high voltage customers and therefore pay more
- 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

Due to the bilateral nature of the agreement this implies that electricity non-domestic prices are not publically available. The UR identified a data gap here, and has worked on the collection and analysis of NI average electricity non-domestic prices per consumption bands, and their comparison with EU members.

In March 2013, for the first time in NI, electricity non-domestic prices and their comparisons for 2011 were published in the *information paper on NI electricity Prices: data and comparisons* [26]. After that, NI I&C prices and comparisons were published in the August QTR for year 2012[27] and will be published in each edition of the QTR going forward.

In order to derive non-domestic electricity average prices, we have followed DECC's format and methodology when gathering and analysing I&C prices. As a result, we can easily compare NI prices to those published in DECC's Quarterly Energy Prices reports[28]. This data is also

[26] http://www.uregni.gov.uk/uploads/publications/Electricity_Pricing_Paper_website_-_March_2013.pdf
[27] http://www.uregni.gov.uk/uploads/publications/Transparency_Report_2013_AUG.pdf
[28] https://www.gov.uk/government/publications/quarterly-energy-prices-december-2012

comparable to equivalent information supplied to Eurostat[29] by Member States – thus allowing international comparisons for NI.

To avoid confidentiality issues, data has been aggregated in the form of 'averages' for the total of NI (per customer size bands), therefore no individual supplier detail is published.

The base figures are obtained quarterly from suppliers, and used to calculate a NI quarterly revenue/value gained per size band. We then calculate quarterly average revenue per unit per size band (which we refer to as prices). Therefore, we do not receive from suppliers the actual price paid by customers across each size band. Instead, we calculate the *revenue collected per unit* in that particular size category.

Also, we average the two relevant quarters to obtain six-month period figures, so we can compare NI data with those published by Eurostat for EU members.

Finally, we amalgamate the large and very large categories of annual consumption to again avoid any confidentiality issues in sectors where there are a very small number of customers and suppliers involved.

This price information presents the average electricity unit prices of non-domestic consumers, categorized by their annual consumption. Consumption size bands by the EU categorization are in Table 5, which also includes percentages of NI non-domestic customers at the end of Q4 2012 in each of those categories (classified by customer number and by consumption).

Table 5 Consumption size bands for non-domestic electricity customers

Size of consumer	Annual consumption bands (MWh)	% of I&C customers	% of I&C consumption
Very small	0 - 20	65%	7%
Small	20 - 499	33%	35%
Small/Medium	500 - 1,999	1%	16%
Medium	2,000 - 19,999	0%	28%
Large + Very Large	20,000 - 150,000	0%	13%

Source: NI suppliers and UR calculations

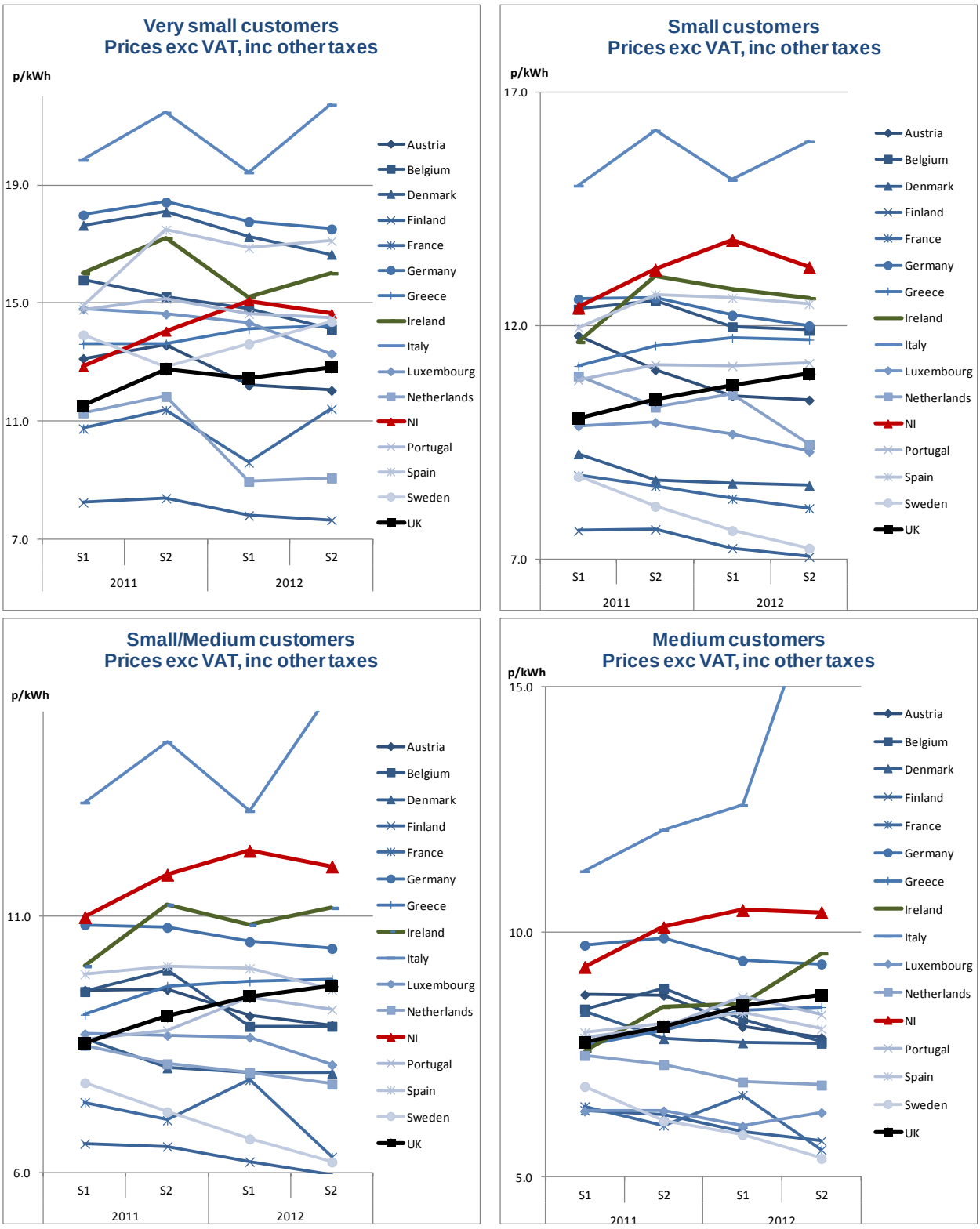
Table 5 shows that NI non-domestic customers are very heavily grouped in the EU-standardised smallest size band (consuming less than 20 MWh per annum). At the end of 2012, these customers accounted for 65% of the total customers in the I&C sector, while they represent approximately only 7% of the total I&C consumption.

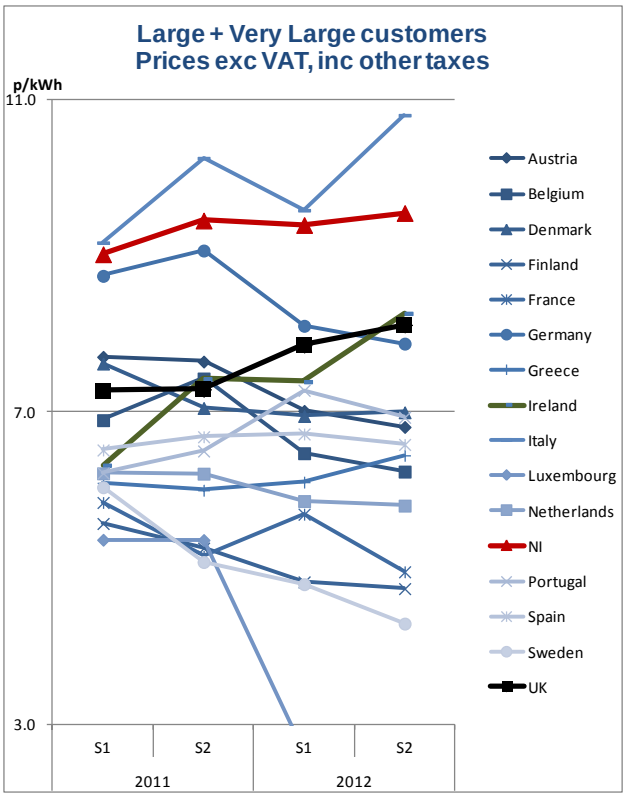
Following the data published in March and August 2013, the graphs in Figure 23 show non-domestic average unit prices, including Climate Change Levy (CCL)[30] but excluding VAT. As VAT is a refundable expense for many businesses, excluding VAT means that the values are more representative of the actual energy costs for businesses.

[29] http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database

[30] The Climate Change Levy (CCL), is a tax on electricity, gas and solid fuels delivered to non-domestic consumers. Its objective is to encourage businesses to reduce their energy consumption or use energy from renewable sources. The rate changes every year. From 1 April 2012, it is 0.509p/kWh.

Figure 23 NI and EU members non-domestic electricity prices since Jan 2011





Source: NI electricity suppliers and Eurostat

Figure 23 shows that prices for the very small customers are around the middle of the EU range. However, prices for larger non-domestic customers sit towards the top end of the EU comparisons.

The above price comparisons, for year 2011[31], were published for the first time in NI in our *Information Paper* [32] in March 2013. More recently we published the *Follow-up paper on Northern Ireland's electricity price transparency*[33] (November 2013). This paper discusses the main issues arising from the original March paper, key consultation points and findings in terms of the price drivers for I&C customers, and includes work planned to address some of these issues.

[31] Equivalent data for 2012 was published in our August QTR, and going forward I&C information will be included in each QTR

[32] http://www.uregni.gov.uk/uploads/publications/Electricity_Pricing_Paper_website_-_March_2013.pdf

[33] http://www.uregni.gov.uk/uploads/publications/Follow_up_paper_electricity_price_transparency_-_4_Nov_2013.pdf

5. Gas

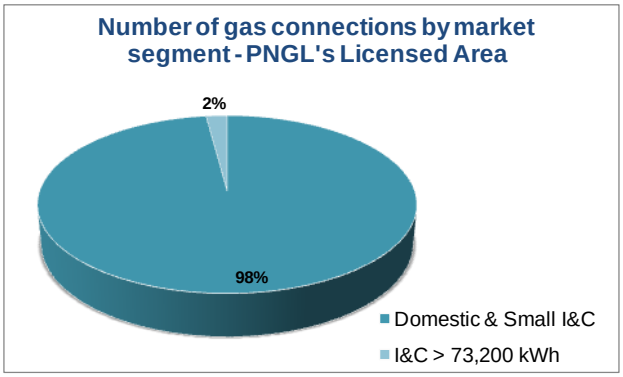
5.1. Customer numbers

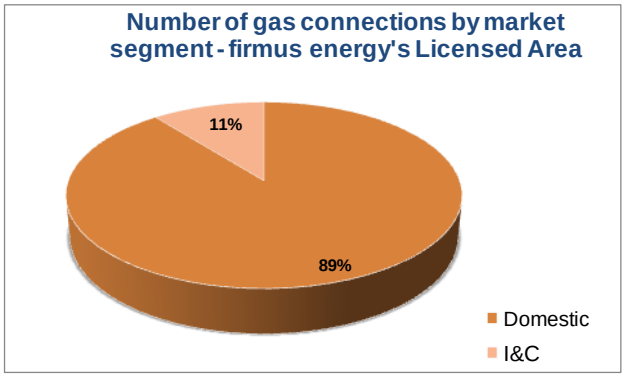
The gas market in NI is split into two geographical areas. There are two gas distribution systems: Phoenix Natural Gas network in the Greater Belfast and Larne area, and firmus energy network in the Ten Towns along the South-North Pipeline and North-West Pipeline.

The gas network in NI continues to be extended. The number of connections (other than the power plants) by market segments in NI in both gas networks by the end of 2012, are shown in Figure 24.

Figure 24 Gas connections in NI by distribution Licensed Area

Gas customers connections 2012	Distribution Licensed Area	
	PNG	firmus
Domestic & Small I&C	151,758	16,230
Domestic credit		1,793
Domestic prepayment		13,639
Small I&C		798
I&C < 732,000 kWh	2,818	824
I&C > 732,000 kWh	291	142
I&C Daily Meter Readings	107	81
Total	**154,974**	**17,277**



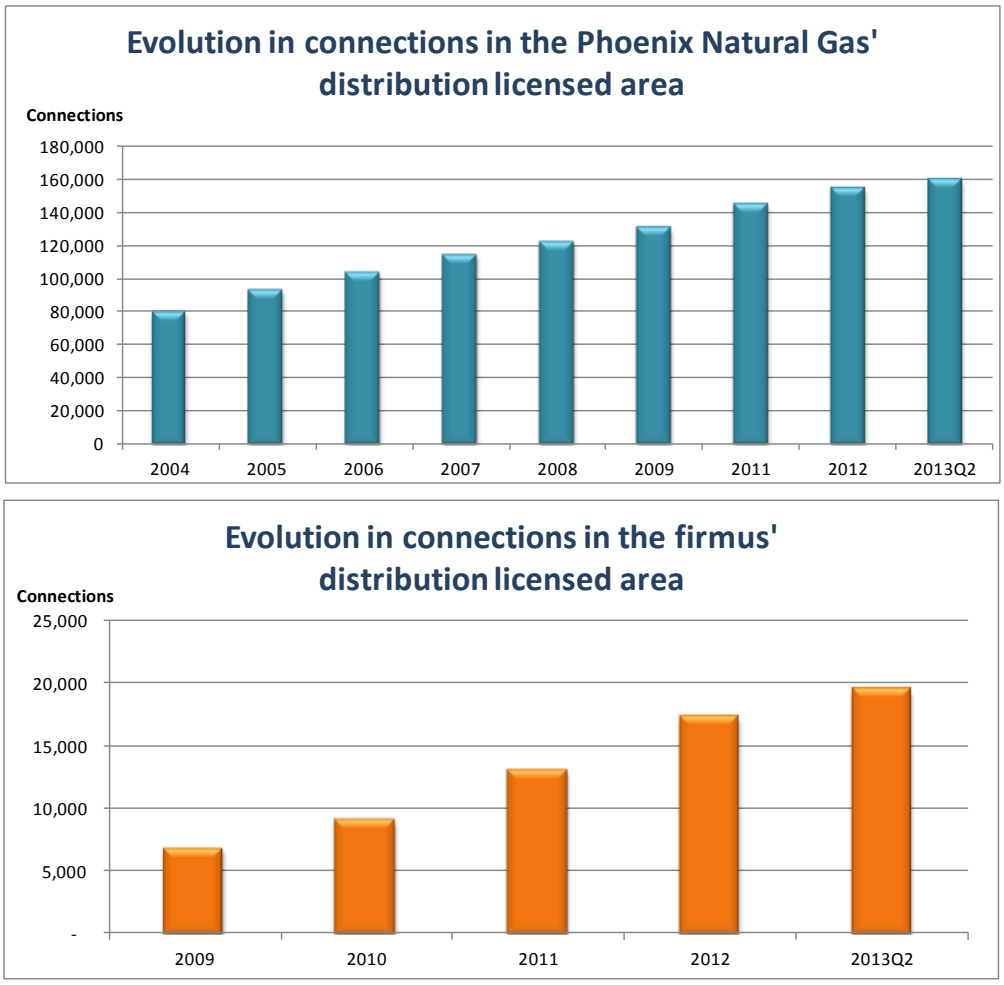


Source: PNG and firmus

In the gas market, the domestic and small I&C sector (<73,200 kWh, or <2,500 Therms/annum) represents the largest share of the total number of connections, with 98% of the total gas connections in PNGL's distribution Licensed Area at the end of 2012. The percentage of domestic connections in the firmus energy's Licensed Area was 89% at the end of 2012.

Figure 25 shows the trend of growth in the number of connections in NI by distribution Licensed Area. By the end of Q2 2013, the total number of connections increased to 159,795 (an increase of 3.1% from the number of connections at the end of 2012) and 19,392 (an increase of 12.2% from the number of connections at the end of 2012) respectively in each of the Licensed Areas.

Figure 25 Evolution of gas connections in NI by distribution Licensed Area



Source: PNG and firmus

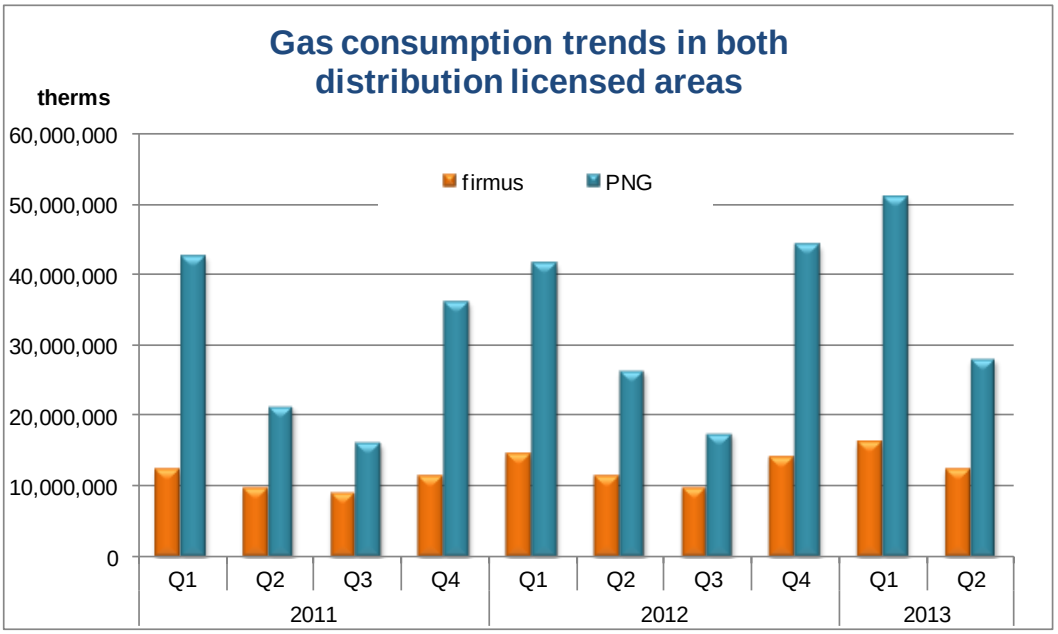
5.2. Consumption

Natural gas in NI is consumed by final gas customers and by Ballylumford and Coolkeeragh power stations. In this report, we refer only to the natural gas that is distributed and used by final gas customers. This represents approximately 30% of the total gas that enters NI.

Quarterly gas consumption, from the start of 2011 to the second quarter in 2013, in both distribution Licensed Areas is shown in Figure 26. Due to seasonality, consumption is

considerably lower over the second and third quarters of the year, with increases in the winter months of Q4 and again in Q1 of the following calendar year.

Figure 26 Evolution of gas consumption in both Licensed Areas



Source: PNG and firmus

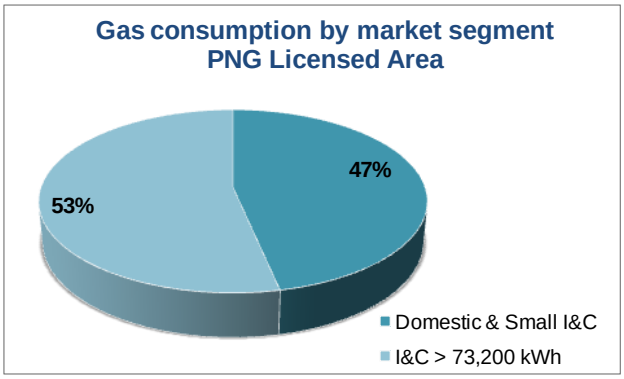
Consumption by market segment is shown in Figure 27 in both Licensed Areas. In PNG area, the total consumption in 2012 was close to 130,000,000 therms. This represents an increase of almost 12% from last year.

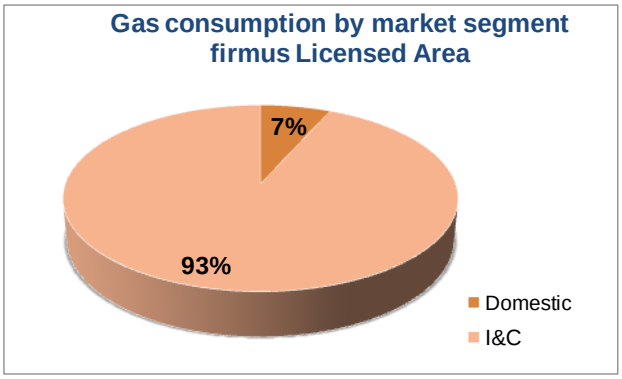
In the firmus energy's Licensed Area, total consumption in 2012 was over 50,000,000 therms. This represents an increase of almost 18% from consumption in 2011.

In terms of market segment split, the domestic and small I&C sector (<73,200 kWh, or <2,500 Therms/annum) consumes about 47% of the total gas in the PNGL's Licensed Area, while the rest of the non-domestic sector – over 73,200 kWh – consumes 53%. In the firmus energy's Licensed Area, the domestic sector accounts for 8% and the non-domestic sector accounts for 92% of the consumption in the Area.

Figure 27 Gas consumption in 2012 in NI by distribution Licensed Area

Gas consumption (therms) 2012	Distribution Licensed Area	
	PNG	firmus
Domestic & Small I&C (EUC1)	60,606,073	4,213,698
Domestic credit		649,270
Domestic prepayment		3,183,498
Small I&C		380,930
I&C < 732,000 kWh (EUC2)	19,500,980	4,799,353
I&C > 732,000 kWh (EUC3)	12,025,029	5,168,285
I&C Daily Meter Readings	37,742,680	35,892,258
Total	**129,874,762**	**50,073,594**





Source: PNG and firmus

5.3. Active suppliers

Active suppliers in Greater Belfast

There are currently 12 gas supply licences granted to companies, however only four suppliers were active in the PNGL's Licensed Area at the end of 2012.

Three of those suppliers (AGS[34], firmus and Vayu) were also active in the domestic sector. Four suppliers (AGS, firmus, Vayu and energia) were active in the non-domestic market in 2012. Electric Ireland entered the daily metered non-domestic segment in May 2013.

Active suppliers in Ten Towns

firmus energy currently retains the exclusive rights to supply gas to customers below 732,000 kWh (25,000 therms, the domestic and small I&C segments). In the Ten Towns Licensed Area competition in the domestic and non-domestic small users will start in April 2015. The large non-domestic users market opened to competition in October 2012.

[34] Airtricity Gas Supply (formerly called Phoenix Supply Ltd)

5.4. Market shares

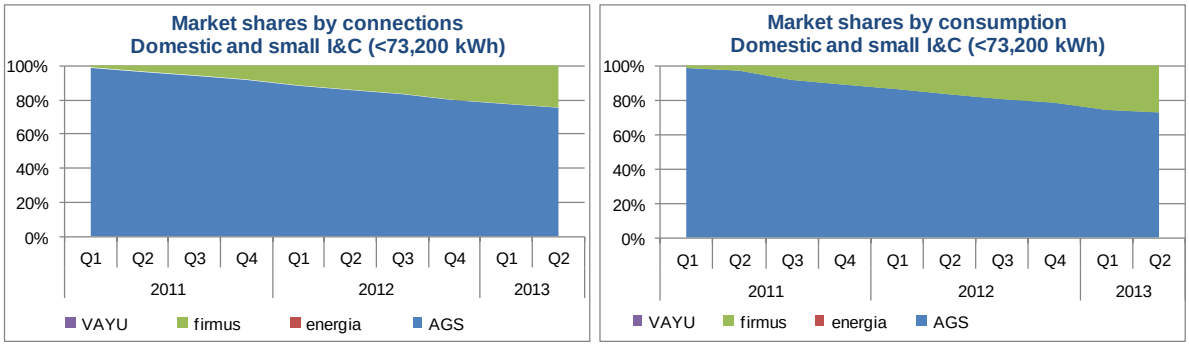
In the PNGL's distribution Licensed Area, competition started in 2007 and 2010 in both non domestic and domestic segments respectively. Competition in this area is still immature, as the incumbent supplier retains a major share in terms of the number of connections and the total volume consumed.

The tables below show absolute and relative numbers for connections at the end of 2012 and annual consumption over the year, per market segment and per supplier. The graphs below show the quarterly evolution in market shares, by the following gas market segments:

- Domestic and small I&C: where less than 73,200 kWh or 2,500 Therms/annum is consumed
- I&C more than 73,200 kWh: where more than 73,200 kWh or 2,500 Therms/annum is consumed

Figure 28 Domestic and small I&C (with consumption less than 73,200 kWh per annum) market shares in PNGL's distribution Licensed Area

2012 Domestic and Small I&C (< 73,200kWh)	Connections	Market share (connections)	Consumption (Therms)	Market share (consumption)
AGS	121,277	79.91%	49,770,835	82.12%
energia	0	0.00%	0	0.00%
firmus	30,468	20.08%	10,819,073	17.85%
VAYU	13	0.01%	16,165	0.03%
Total	**151,758**	**100%**	**60,606,073**	**100%**



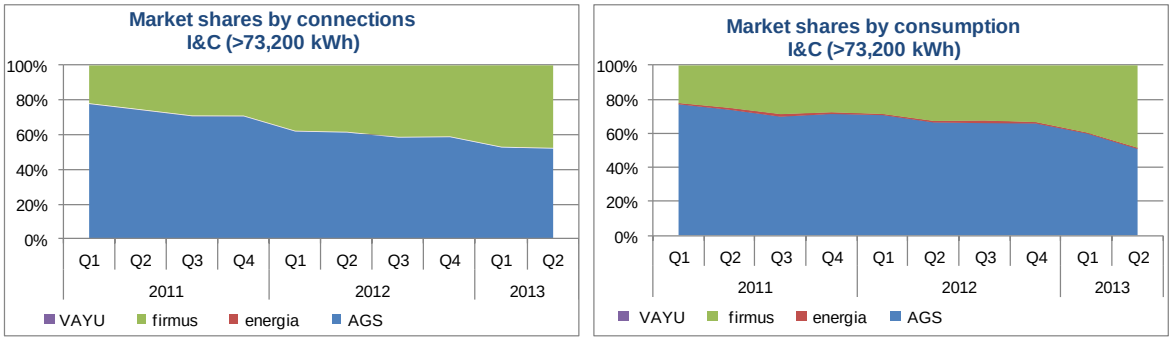
Source: PNG

In 2012 there were three active suppliers in this market, although the shares of the main supplier, AGS, were still quite high with 80% by number of connections and 82% in terms of volume consumed. Due to the current high market concentration, supply price controls are retained on this dominant supplier by the UR.

However, it can also be seen in the graphs that this share continues to diminish. By the end of Q2 2013, the shares of AGS had decreased to 76% by connections and 73% by consumption. The number of connections that switched to firmus in this market segment by the end of the second quarter of 2013 was 38,289.

Figure 29 I&C > 73,200kWh market shares in PNGL's distribution Licensed Area

2012 I&C > 73,200kWh	Connections	Market share (connections)	Consumption (Therms)	Market share (consumption)
AGS	1,889	58.74%	46,717,418	67.44%
energia	2	0.06%	759,801	1.10%
firmus	1,315	40.89%	21,714,282	31.35%
VAYU	10	0.31%	77,188	0.11%
Total	**3,216**	**100%**	**69,268,689**	**100%**



Source: PNG

There are four active suppliers in the non domestic market using more than 73,200 kWh per annum, although two of them, energia and Vayu, have a very small portion of the market (less than 1% market share by connections and less than 2% market share by volume).

In this sector of the market with larger customers, competition is more noticeable. Although the shares of the main supplier, AGS, are still over 50% (59% in terms of connections and 67% in terms of volume), they have experienced a decrease since the same period last year, when market shares in terms of connections and volumes were over 70%.

By the end of Q2 2013, AGS shares in this market continued to diminish to 52% by connections and 50% by volume, whilst firmus' shares both, by connections and consumption, were 48%.

In the Ten Towns distribution Licensed Area, competition opened in October 2012 in the large non domestic market. AGS entered the large I&C market in January 2013, and as at end June 2013, six supply meter points had switched from firmus to AGS. This equates to 3% market share of the large I&C market in terms of connections and 8% market share in terms of consumption (by Q2 2013).

The remainder of the market in this Licensed Area (i.e. small I&C and domestic market) will open to competition from April 2015.

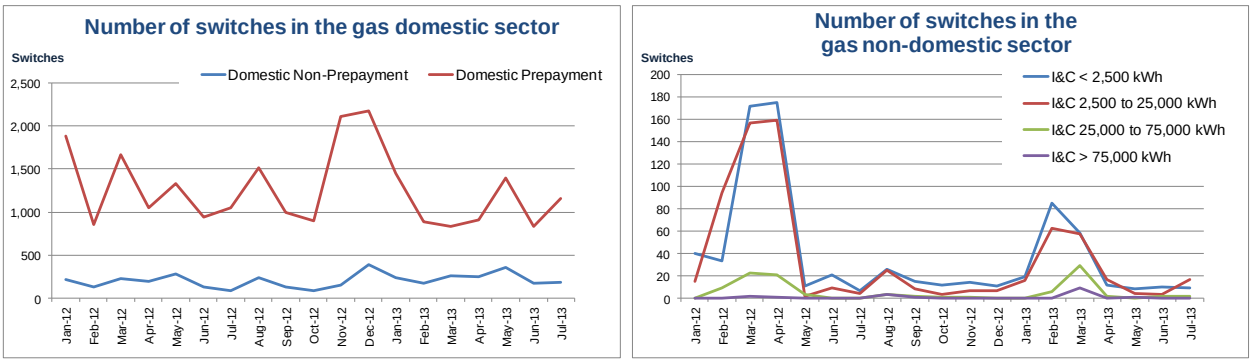
5.5. Switching activity

The switching rate for the domestic market in Greater Belfast for the year 2012 was 13%, while the rate for the non-domestic segment was 11%. These percentages are calculated using the number of Supply Meter Point switches in 2012 as a percentage of the number of Supply Meter Points in the market segment at the end of year.

Over the period 2012, the total number of switches, for both domestic and non-domestic customers, was around 19,800.

Figure 30 shows the number of gas switches split by domestic and non-domestic markets, from the beginning of 2012 until the most available data for 2013. These graphs represent the number of Supply Meter Point switches that have been requested by customer up until March 2012, and the number of switches that have been confirmed from April 2012 onwards.

Figure 30 Switching activity in the gas sector (by number of switches).



Source: PNG and gas suppliers

5.6. Methods of payment

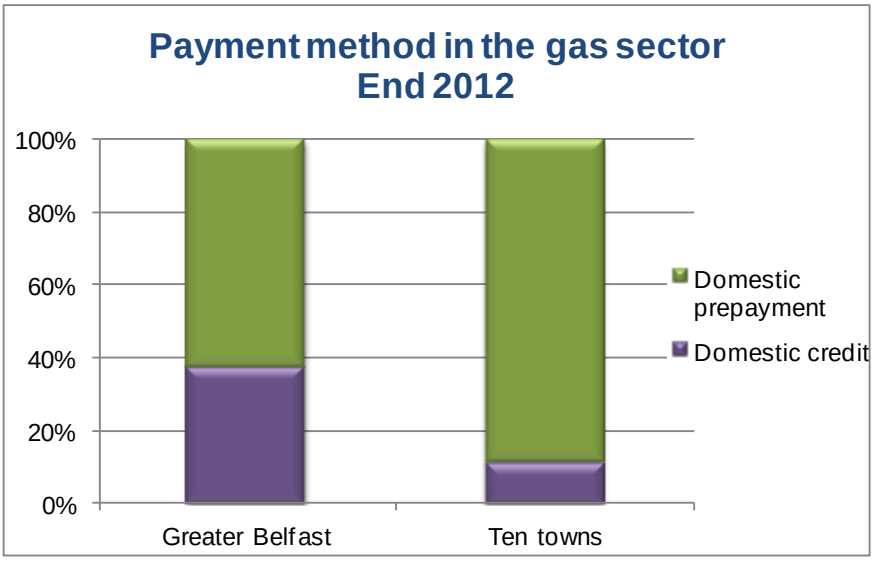
Gas suppliers are obligated, under their supply licence, to offer their domestic customers three payment methods[35]. Therefore, domestic customers in NI are able to avail of one of the following methods to pay for their electricity:

- Prepayment meter, where customers can top-up their gas as they foresee their short-term consumption
- Standard credit, where for example the supplier charges 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.

Figure 31 shows the percentage of gas domestic customers with prepayment meters and the percentage of customers availing of the credit options. In the PNGL's distribution Licensed Area (approximately Greater Belfast and Larne), the percentage of prepayment meters at the end of 2012 was above 60%, while for the same period, prepayment was higher in the Ten Towns Area, with around 88% of the connections.

[35] Paragraph 11 in condition 2.18, on Terms and Conditions of Gas Supply Contracts, states that: "The Licensee shall ensure that its standard terms and conditions provide domestic customers with a choice of payment methods, including as a minimum making payment: (a) in arrears (at such frequency as is set out in the terms and conditions), (b) by direct debit (at such frequency as is set out in the terms and conditions), and (c) in advance through a prepayment meter.

Figure 31 Split between payment methods.



Source: gas suppliers[36]

5.7. Gas prices

We directly regulate the electricity and gas prices of suppliers who are in a dominant monopoly position in the domestic and small business sectors of the NI market. In gas, tariffs are regulated for those using less than 25,000 therms per annum, as we do not consider that this section of the market is sufficiently protected by competition.

When implementing price controls, we act on behalf of consumers to ensure costs and prices are kept as low as they can be, while allowing regulated companies a supply margin in order to run their businesses.

5.7.1. Gas domestic prices

The price control over AGS on gas supply in the PNGL's distribution Area applies to the market segment where competition is relatively immature, the domestic and I&C customers who consume less than 25,000 therms per annum.

Until now, a price control has not existed for the firmus energy supply tariff, for the following reasons:

- firmus energy is still in the early stages of its development. With around 17,000 connections at the end of 2012, firmus is very much focused on growing their business and attracting as many new customers as possible. A necessary requirement in achieving this is to price as competitively as possible against alternative fuels (e.g. home heating oil).
- firmus energy is incentivised through the distribution price control to maximise volume throughout the control period. To achieve this, firmus must price

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

competitively in order to win new customers and increase the demand for gas flowing through its distribution network.

The large I&C market in the Ten Towns Area opened to competition on the 1 October 2012. However supply for the small I&C and domestic market remains exclusive to firmus energy until this part of the market opens in April 2015.

In the gas sector, the components of the tariff differ somewhat from those in the electricity sector. The components of the gas supply tariff for AGS (NI) Ltd[37] are set out in Table 6.

Table 6 Gas tariff components

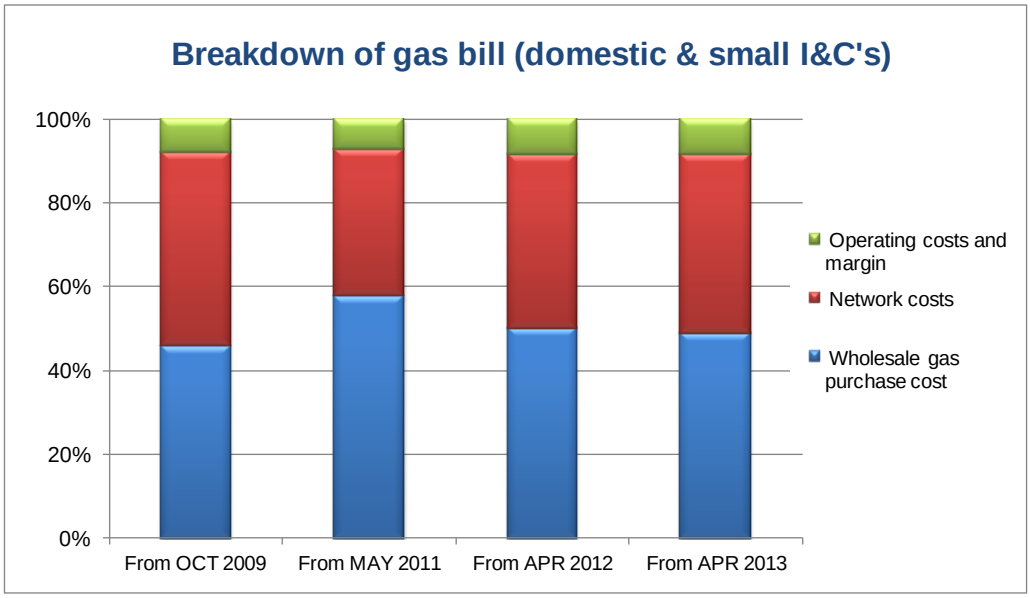
GAS	Service	Regulatory Instruments/Scrutiny
Gas costs	This is the cost of the gas bought in GB, and is the most volatile component.	This is a pass through cost (a cost that the customers pay) and is scrutinised at every tariff review by the UR.
Transmission charges	Costs involved in transporting gas from Scotland to NI, via the SNIP, and transporting that gas through the NI transmission system to the distribution network.	Tariffs approved by the UR and published every July.
Distribution charges	Costs associated with moving gas throughout the Greater Belfast and Larne areas to homes and businesses.	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 the supply business (i.e. billing, meter reading, staff, etc).	Costs are approved and published by the UR through the price control.
"K" 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 AGS. It is the amount of profit the supplier is allowed to make, and is currently set at 1.5% of turnover from tariff customers.	This is determined by the UR as part of price control.

The relative importance of the various elements that make up final bills is shown in Figure 32, illustrated by reference to the percentage components of the gas bills. This graph relates only to the regulated tariff, therefore the breakdown of the gas bill corresponds to all AGS regulated customers over the relevant periods.

The graphs show the relative importance of wholesale and network related costs in the final regulated prices (on average these account for between 40% and 50% each year) compared to the actual supply costs (operating costs and margins) of around 9% of the final price.

[37] http://www.uregni.gov.uk/uploads/publications/Airtricity_Gas_Supply_NI_pricing_announcement_-_Briefing_Paper.pdf

Figure 32 Make-up of regulated gas bill



Source: UR and AGS

Gas price comparison with GB and RoI

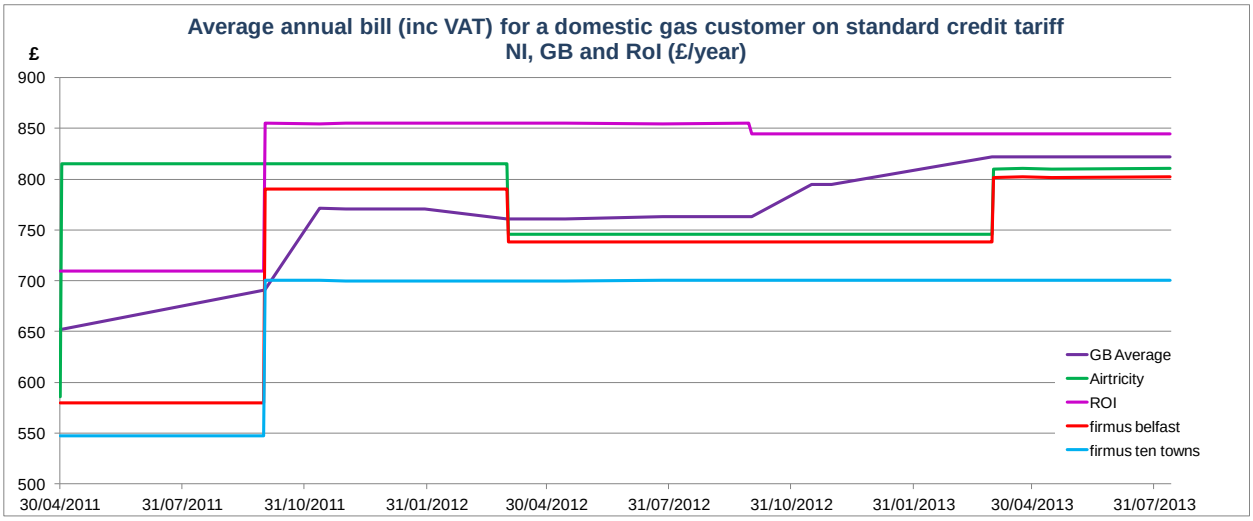
Historically NI prices have been higher than in GB, mainly attributable to the fact that the NI gas infrastructure has been built quite recently. There are also other explanatory factors, such as extra costs of gas transport from Scotland, etc. This trend changed in 2009 as a result of the almost immediate pass through to customers of the fall in prices from the price control in NI, and also because GB suppliers demand relatively greater margins.

However, in May 2011 there was a substantial increase in the tariff for AGS customers which was driven largely by an increase in wholesale gas costs. This resulted in prices in NI rising higher than GB once again. Then in 2012, AGS reduced their tariffs by 8.5%, (effective from April 2012) with the result that the AGS tariff was just under the standard average tariff in GB. In April 2013 AGS then increased their tariffs by 8.7% and at approximately the same time, firmus also increased their tariffs in the Greater Belfast Licensed Area. In RoI, BGE introduced an 8.5% increase from 1 October 2012 (however the chart below shows a slight decrease at that time due to the changes in the exchange rate).

The large gas supply companies in GB announced tariff increases between September 2012 and January 2013, which ranged from 6% to 11%. The gas regulated price in the domestic sector and small I&C in NI, in both distribution Licensed Areas, is below gas prices in RoI, and at or slightly below the average in GB.

Figure 33 compares domestic prices for a standard gas tariff since 2011. It shows the GB average for the 6 big suppliers in GB. The annual usage estimate is 16,500 kWh. RoI prices are represented by BGE's tariff for the same estimated usage, and converted into pound sterling for comparison purposes using the exchange rate applicable at the date of each tariff change. The NI tariffs used for comparison purposes are the standard tariff rates for domestic credit customers (excluding any discounts available for payment by direct debit, online billing etc).

Figure 33 Average annual bill for a gas customer on standard credit tariff: Northern Ireland, GB and RoI (£/year)



Source: UR

Price comparison at EU level

The comparison between NI domestic gas price with the most recent available prices for other countries in Europe over 2012 is shown in the figures below.

The figures used for NI are based on the AGS tariffs (pre and post April 2012), for a customer consuming 16,500 kWh per annum – including VAT – that applied:

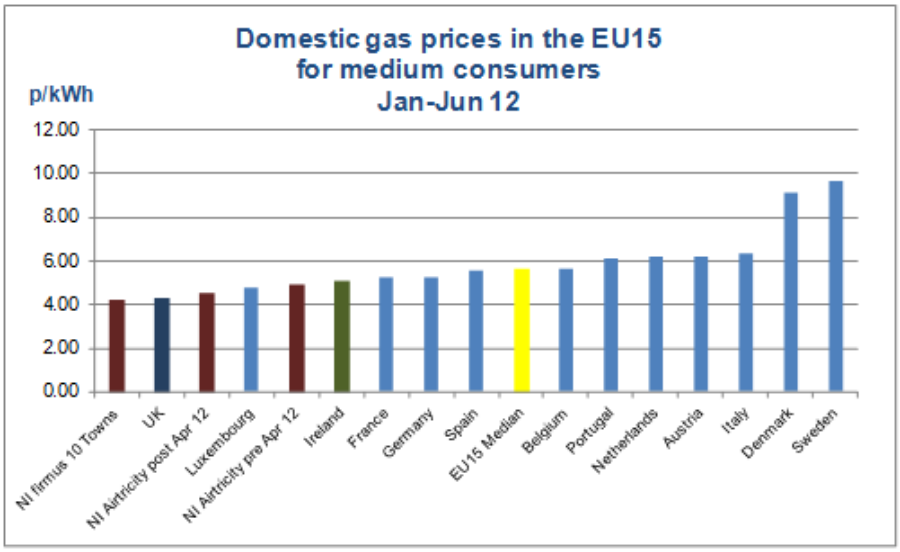
- For the period Jan – Jun 2012 (Figure 34) — Before April 2012 (4.94 p/kWh) and the tariff that applied from April 2012 (4.52 p/kWh)
- For the period Jul – Dec 2012 (Figure 35) — Tariff from April 2012 (4.52 p/kWh)

Data from EU members has been obtained from Eurostat, for medium consumers consuming 2,500 – 4,999 kWh per annum. This data relates to the two semesters in 2012 (January–June and July–December).

The figures also include the tariff for Ten Towns customers for a customer consuming 16,500 kWh per annum (including VAT).

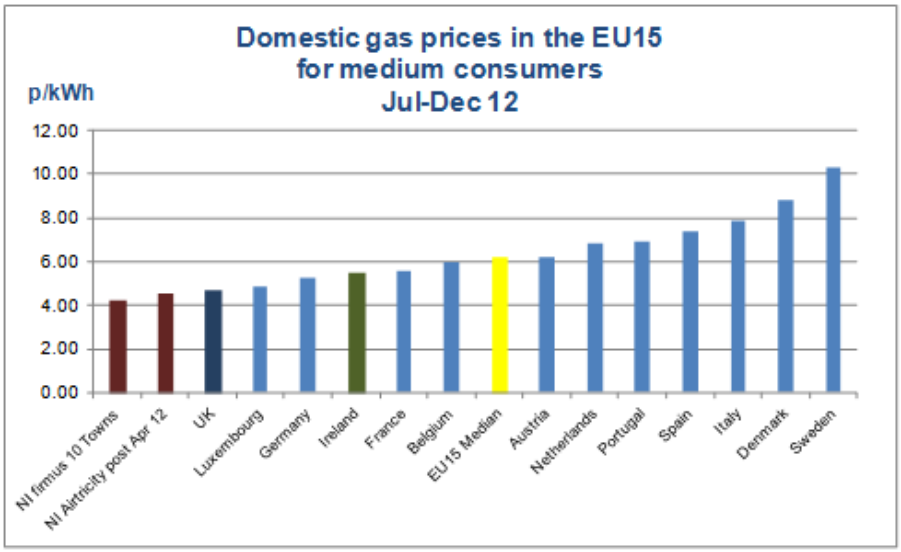
The chart shows that NI gas prices are among the lowest in Europe.

Figure 34 Domestic gas price comparison at EU level incl taxes. Jan-Jun 2012



Source: UR and DECC Quarterly energy Prices

Figure 35 Domestic gas price comparison at EU level (incl taxes) Jul-Dec 2012



Source: UR and DECC Quarterly energy Prices

6. Retail market regulation - way forward

From the UR perspective there are important projects included in our Forward Work Plan for 2014/15 that need to be completed to ensure customers are adequately protected. Three of these projects are as follows:

6.1 Retail Energy Market Monitoring (REMM)

We established the current limited UR retail monitoring framework to collect and analyse information on some key basic data which was considered a priority for the electricity and gas retail sectors. This gives us a good basic insight into some of the main indicators such as domestic market shares, domestic market activity, the number of competing suppliers and domestic price/tariffs. This information has been released quarterly through the QTR's since February 2011.

Market monitoring is important for the following reasons:

1. The Third Package legally requires National Regulatory Authorities (NRAs) to monitor the efficient functioning of the competitive market. This is a duty which the NRAs will be held accountable (on how we effectively and efficiently discharge this duty).
2. Market monitoring provides transparency to the wider community (energy consumers and stakeholders) who are all impacted by how the energy retail markets operate.
3. It ensures that NRAs are demonstrating they are doing their job in a credible way as protectors of the interests of consumers.
4. Enables risks to be identified and addressed proactively.
5. It helps decision makers to make better-informed regulatory and energy policy decisions.

As a result in 2014-15 we intend to consult with our stakeholders on a suggested "wider monitoring framework" to enable us to fulfil all of the above, which we refer to as Retail Energy Market Monitoring (REMM).

In doing so, we will take into consideration monitoring obligations pursuant to the supply licences (for example compliance with Codes of Practice), EU obligations, good practice recommendations and guidelines, and previous experience of other NRAs.

Apart from monitoring mandatory compliance, there are other aspects of the retail markets we may want to take into consideration when designing this framework (i.e. gas prices in the non-domestic sector). We will also take into consideration outputs from our work on the issues around I&C prices.

6.2 Review of effectiveness of competition in our retail markets

We have a significant and strategically important project planned for 2014 in relation to reviewing the effectiveness of retail competition in the NI context. In doing this we will pick up the current problems in other retail markets around transparency, fears over the effectiveness of competition, customer impacts, retail market failures, how regulation works alongside competition, etc.

We will be developing work and a consultation on these issues in early 2014.

6.3 Codes of Practice consultation

We are about to launch a wide-ranging and important consultation on how gas and electricity suppliers must interact with their customers. This consultation will seek views and comments on the proposed minimum standards guidance for energy suppliers' Codes of Practice. The paper will consult on the following Codes of Practice:

- Code of Practice on Payment of Bills, to apply to domestic customers
- Code of Practice on provision of services for persons who are of Pensionable Age or Disabled of Chronically Sick, to apply to domestic customers
- Code of Practice on Complaints Handling Procedure, to apply to domestic and non-domestic customers
- Code of Practice on Services for Prepayment Customers, to apply to domestic customers

These Codes of Practice will ensure that customers, and in particular vulnerable customers, are protected in their relationship and dealings with electricity and natural gas suppliers.

The consultation paper will include monitoring reporting requirements based on compliance with certain Licence Conditions, but also based on what we believe we should require from suppliers to ensure customers are adequately protected in their interaction with energy suppliers. For example, the consultation will include reporting requirements related to special care registers, payment methods, debt, complaints, etc.

This consultation will be issued in December and in order to encourage and facilitate full stakeholder engagement, the UR will hold a workshop during the consultation period (details will be available on our website in due course).

Glossary

AGS	Airtricity Gas Supply
DECC	Department of Energy and Climate Change
ERGEG	European Regulators' Group for Electricity and Gas
EU	European Union
Eurostat	Statistical office of the EU. Its task is to provide the EU with statistics at European level that enable comparisons between countries and regions
GB	Great Britain
I&C	Industrial and Commercial
kVA	Kilo volt-ampere
kWh	Kilowatt hour. Unit of energy equivalent to one kilowatt (1kW) of power expended for one hour (1h) of time. 1,000kWh = 1MWh. 1,000MWh = 1GWh.
NI	Northern Ireland
NRAs	National Regulatory Authorities
QTR	Quarterly Transparency Reports
LEU	Large Energy Users
Ofgem	Office of the Gas and Electricity Markets
PNG	Phoenix Natural Gas
PSL	Phoenix Supply Limited
PSO	Public Service Obligation
PTL	Premier Transmission Limited
Q	Quarter
RoI	Republic of Ireland
SEM	Single Electricity Market
SME	Small and Medium Enterprises
SNIP	Scotland to Northern Ireland Pipeline
SONI	Systems Operator for Northern Ireland
SSS	System Support Service
TSO	Transmission System Operator
UoS	Use of System
UR	Utility Regulator

List of figures

List of tables