

# **Energy Retail Report**

## **2009**



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# Energy Retail Report 2009

## Introduction

### Purpose of Document

The purpose of this 1<sup>st</sup> Annual Energy Retail Report is to present and take views on a range of information which we hope will be of interest and use to our wide array of stakeholders. It is our intention that this report will be followed by subsequent reports on an annual basis, which will build on the data detailed within this document. At the outset we want to sincerely thank all stakeholders and colleagues who have patiently helped us to collect and check the information herein.

Given the diverse interests of our stakeholders, this first report covers much ground within both the regulated gas and electricity sectors, and is deliberately wide-ranging in content. The overall genesis of the report was centered on delivering more information around the retail segments of the regulated energy sectors. However, we have also included significant general background sections to the energy sectors in Northern Ireland and to the work of the Utility Regulator (the Regulator) within those sectors. As a result of this, the report is designed to be an educational resource for those not closely involved in the regulated energy sectors to date, as well as being of obvious interest to sectoral insiders.

Given the above, we would like to use this first report to understand stakeholders' views and suggestions on contents and how we might improve future editions. We encourage comments and ideas for improvement, new data sources, new data content that would be beneficial, etc.

In particular, we want to use this and particularly future editions of the report to monitor and collect information on the extent of competition in our energy supply markets and the extent to which participants view our supply markets as readily contestable. We especially want stakeholders help in making future editions of this report as useful as possible in this regard. Thus whilst this is not a formal consultation, comments on this report are very welcome and should be sent by Friday 5<sup>th</sup> February 2010 to:

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## Policy Background to Energy Retail Competition Development

Delivering effective competition has long been at the core of the EU, GB and Northern Ireland's vision of energy markets. A range of steps at all three levels have sought to promote wholesale and retail energy market competition. The statutory remit given to the Regulator places a high value on effective competition where appropriate, as a means to deliver consumer benefits.

Consequently, a number of steps have been taken over recent years to facilitate energy retail competition:

- a. From 1999, industrial electricity consumers became eligible to change supplier, and the structures to manage legacy contracts and levies were altered so these applied across incumbent and competitor customers.
- b. The Regulator has issued 18 electricity supply licences. However, some of these are dormant, have withdrawn from the market, or essentially only supply affiliated power stations.
- c. From 2005, small and medium business electricity customers were able to change supplier.
- d. In November 2007, household electricity customers were able to change supplier and the interim switching system to enable this became operational. This system has some operational limits that restrict the number of switches, and work has been undertaken to reduce these limits in advance of completing the work on an enduring IT solution to allow full switching of customers without limits. For more information on rates of churn and ceiling of electricity switching:  
[http://www.niaur.gov.uk/news/view/utility\\_regulator\\_publishes\\_interim\\_market\\_arrangements/](http://www.niaur.gov.uk/news/view/utility_regulator_publishes_interim_market_arrangements/).
- e. In November 2007, the Single Electricity Market (SEM) went live. This ensures that all suppliers have access to electricity at a price that fairly reflects the clearing price for all generation across the island of Ireland.
- f. In 2008-09, the Regulator consulted widely on issues relevant to fostering enhanced retail competitive activity in the energy sectors and published a review of retail competition<sup>1</sup>. This aimed to consider how the competitive benefits deriving from liberalisation and the establishment of the SEM could be delivered more quickly to Northern Ireland energy consumers. We have set up a dedicated unit to drive forward the subsequent recommendations and actions.

In electricity, data in the report indicates that there is now significant competition in the industrial and commercial (I&C) sector, where a significant share of non-domestic consumption is now supplied by non-NIE Energy (NIEES) suppliers. However, the majority of customers, particularly those in the small I&C sector, continue to be supplied by NIEES. In addition to this, currently there is no competition to supply households with electricity, although some companies have indicated willingness to enter this sector.

17 gas licences have been granted and, in 2007, the gas market in the Greater Belfast and Larne area was opened up to competition for all customers. For the 10 towns also connected to the gas network outside of the Greater Belfast and Larne area, firmus Energy retains the exclusive rights

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<sup>1</sup> Consultation on Electricity and Gas Retail Market Competition in Northern Ireland:  
[http://www.niaur.gov.uk/uploads/publications/23Apr08Retail\\_comp.pdf](http://www.niaur.gov.uk/uploads/publications/23Apr08Retail_comp.pdf)

to supply gas to all customers<sup>2</sup>. In Belfast there are currently three active gas suppliers, Phoenix Supply Limited (PSL), firmus Energy and Energia. Only one of these gas licence holders, PSL, supplies the domestic sector at present.

Despite the fact the market in the Greater Belfast and Larne area is now fully open to competition, so far only a small number of industrial and commercial gas customers have changed supplier. We therefore are currently seeing quite limited competition in the gas sector, and none at all at household level.

In November 2008 we published a Decision Paper on Energy Retail Competition<sup>3</sup>, *strategic intent and action plan*. This paper noted that “retail competition will deliver benefits for consumers, so long as it is developed efficiently and according to a model that suits the conditions in Northern Ireland“. A number of potential benefits of retail competition were listed including:

- **Price benefits:** from creating competitive pressure to reduce costs in supply, and to procure better. In particular, placing commercial incentives on suppliers to procure better should bring to bear more management expertise and so over time allow lower overall costs than the current pass-through arrangements.
- **Innovation:** for example new suppliers, with experience in other markets, are likely to bring to market different products that extend consumer choice.
- **Service standards:** competitive pressures, combined with effective industry systems and robust regulation, should enable high service standards to be delivered cost effectively. Regulation can only effectively set a single standard which might be the average of consumers’ wishes. Competition can allow different supplier and product offerings to differentiate service levels, with prices varying accordingly.

It was concluded that a number of significant barriers currently hinder market entry and competition, and these can potentially be addressed by regulatory action. Our most recent Forward Work Programme 2009/10 included a set of measures to fulfill the retail objectives and, among them, the delivery of a first annual retail market report during the financial year 2009/10, and subsequent retail reports every year thereafter.

## Questions to readers

We would like to understand stakeholders’ views on the report with the objective of improving future editions. We would welcome any comments on the contents, and particularly would like to ask about the following issues regarding parts two and three of the report.

- We want to use this and particularly future editions of the report to monitor and collect information on the extent of competition in our energy supply markets and the extent to which participants view our supply markets as readily contestable. We do not think that the information provided in *Part Two Core Retail Information* is currently sufficient in terms of measuring the contestability of the market. We would like responses from stakeholders to identify other piece of information you would like to see reflected or information that we should remove in future editions as being irrelevant.

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<sup>2</sup> The retention of exclusivity for firmus is consistent with EU Directive 2003/55/EC (the Directive that requires market opening), since the Directive only applies where a supplier has in excess of 100,000 customers.

<sup>3</sup> Consultation on the Corporate Strategy and Forward Work Programme, along with three Decision Papers, issued in November 2008:

[http://www.niaur.gov.uk/publications/view/consultation\\_on\\_the\\_draft\\_5\\_year\\_corporate\\_strategy\\_and\\_forward\\_work\\_progra](http://www.niaur.gov.uk/publications/view/consultation_on_the_draft_5_year_corporate_strategy_and_forward_work_progra)

- Do you agree that the issues covered at *Part Three Key Future Work Areas* are the main targets of the Utility Regulator's Retail Unit? We have asked this before in previous consultations (i.e. Energy Retail Competition Work Programme: General Overview and Rationale) and know that most of our stakeholders agreed with it. However, we would welcome comments on this issue periodically with the issue of the Energy Retail Report.

## PART ONE: BACKGROUND

### 1. Overview of the electricity and gas sectors

#### 1.1. The Utility Regulator

The Regulator is a non-Ministerial Government department. Our role is to ensure that the utility industries in Northern Ireland are regulated and developed within the strategic policy parameters set out by Ministers and the relevant legislation. Our broad range of functions are carried out in line with statutory duties set out mainly in the Energy (Northern Ireland) Order 2003 and the Water and Sewerage Services (Northern Ireland) Order 2006. The Annex contains an excerpt from the Energy (Northern Ireland) Order 2003 related to the principal objective and general duties of the Department and the Authority in relation to electricity and gas.

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

#### Utility Regulator Structure

The Utility Regulator has currently four regulatory directorates including:

Electricity

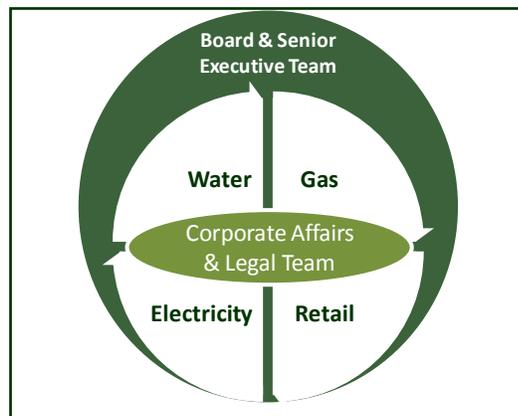
Gas

Retail and

Water

They are responsible for the economic and consumer service regulation of the three regulated sectors. These are supported by a Corporate Affairs directorate which is responsible for social and environmental matters; appeals, complaints and disputes; finance and administration; strategy development and communications.

Figure 1 Utility Regulator's internal structure



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

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

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

### **Statutory Duties**

We have a number of principal statutory objectives in the three regulated sectors, water and sewerage, electricity and gas.

As regards the electricity industry, the statutory duties refer to protecting the interests of consumers of electricity supplied by authorised suppliers. This included promoting effective competition, where appropriate, between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity.

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

### **Electricity**

A key focus over the last four years has been the establishment of the Single Electricity Market (SEM). This has resulted in a single all-island wholesale market for electricity aimed at enhancing security and diversity of supply, encouraging market efficiencies and economies of scale and promoting greater competition. In parallel we have encouraged greater competition at the retail level with completion of non-domestic market opening in 2005 followed by domestic market opening in November 2007.

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

To find out more about electricity workstreams, please visit our website: [www.niaur.gov.uk](http://www.niaur.gov.uk).

## Gas

The Regulator's principal objective with respect to gas is to promote the development and maintenance of an economic, efficient and co-ordinated gas industry. A key focus has been on activities to encourage the growth of the network.

In 1996 the building by BGE of an interconnector between Scotland and Dublin made the construction of the Scotland to Northern Ireland Pipeline (SNIP) possible. This pipeline brought gas to Northern Ireland for the first time since the last disconnection in 1988 of a towns gas customer. Two further transmission pipelines were then constructed - the North-West Pipeline (NWP) to transport gas from Belfast to Londonderry and the South-North Pipeline (SNP) from Belfast to Gormanstown in the Republic of Ireland (RoI). These pipelines have subsequently allowed the development of distribution and supply networks servicing a number of towns along the routes (the 10 towns).

In the future there is the opportunity to develop the industry with the potential for storage facilities, harmonisation of the industry on an all-island level and consideration given to further network expansion as well as increasing connections within areas already serviced. We will also use the period to develop a more structured and robust approach to monopoly price controls with the creation of a detailed ongoing cost reporting regime to provide improved scrutiny and transparency on network costs.

To find out more about gas workstreams, please visit our website: [www.niaur.gov.uk](http://www.niaur.gov.uk).

## Functions of the Utility Regulator

Our functions originate from a range of domestic and European legislation. The main domestic legislative base for gas and electricity is the Energy Order<sup>4</sup>. However, some of the Authority's (Regulator) electricity and gas functions are drawn from both domestic and European Regulations, as set out below.

### Gas

Grant licences and extensions of licences to authorise the conveyance, storage or supply of gas.

Modify licences and also implement licence modifications.

Perform specified functions, concurrently with the Office of Fair Trading (OFT), set out under Part 4 of the Enterprise Act and Part 1 of the Competition Act. These relate to commercial activities connected with the conveyance, storage or supply of gas or to agreements or conduct connected with the conveyance, storage or supply of gas.

Make references to the Competition Commission.

Fix maximum charges for reselling gas.

<sup>4</sup> The Energy (Northern Ireland) Order 2003. 2003 No. 419 (N.I. 6). Northern Ireland.

Provide information, advice and assistance to DETI and the OFT.  
Keep the market under review.  
Grant consent for construction of pipelines and construction works at a gas storage facility.  
Determination of relevant complaints to the Authority within specified timescales.  
Set price controls for Phoenix Supply Ltd., Phoenix Natural gas and firmus Energy Ltd. Distribution.  
Publish (as appropriate) calculation methodology for imbalance charges and for final tariffs.  
Approve penalty charges which exceed actual balancing costs incurred and approve charges (if they exist) for provision of information (by TSOs) on balancing status of network users.  
Cooperate with other regulatory authorities, including the European Commission in relation to energy legislation, and the Competition Commission.

### **Electricity**

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

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

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

The standard price control is normally exerted over monopoly businesses (“pipes and wires”), however, due to lack of competition in certain electricity and gas supply customer categories (including domestic customers), a “supply” price control is in place in Northern Ireland for both the dominant gas (Phoenix Supply Ltd) and electricity (NIE Energy Supply) supply companies. The main objectives of a price control are:

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

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

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

### Price control methodology

A price control determines the allowed annual expenditure for the utility company. In order to make this determination the Regulator analyses each element of the costs submitted from the company. We take into consideration historic costs, forecasts for the period of the control, any changes in the gas or electricity industry, cost drivers and comparisons with Great Britain (GB) and RoI. We also consult with the companies, the Department of Enterprise, Trade and Investment (DETI), the Consumer Council for Northern Ireland and other interested parties before making a final determination<sup>5</sup>.

The amount of money that a monopoly network business can earn on its regulated business is restricted by an RPI - X price control that is reviewed every few years. It controls prices, not profits, and encourages efficiency within the company. The RPI - X price control takes the retail price index (the rate of inflation) as its benchmark and subtracts X (an efficiency factor) from it. For example, at a time when annual inflation was 3 per cent, an X of 2 would allow the company to raise prices by no more than one per cent<sup>6</sup>.

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

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

- **Operating expenditure:** this covers the day-to-day costs of running the network, such as staff costs, repairs and maintenance, overhead costs, etc.

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<sup>5</sup> <http://www.niaur.gov.uk/uploads/publications/Notes - Gas price controls outcome 080409.pdf>

<sup>6</sup> [http://www.ofgem.gov.uk/Media/FactSheets/Documents1/6610-factsheet39\\_march04.pdf](http://www.ofgem.gov.uk/Media/FactSheets/Documents1/6610-factsheet39_march04.pdf).

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

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

**Table 1** Current electricity price controls

Document	Implementation	Link to our website
NIE Energy Supply Price Control	2009 - 2010	<a href="http://www.niaur.gov.uk/uploads/publications/Decision_Paper_-_NIE_Energy_Supply_Price_control_2009-10_2.pdf">http://www.niaur.gov.uk/uploads/publications/Decision_Paper_-_NIE_Energy_Supply_Price_control_2009-10_2.pdf</a>
SEMO Revenue and Tariffs	2009 - 2010	<a href="http://www.niaur.gov.uk/uploads/publications/Decision_Paper_SEMO_Price_Control.pdf">http://www.niaur.gov.uk/uploads/publications/Decision_Paper_SEMO_Price_Control.pdf</a>
NIE Energy (PPB) Price Control	2009 - 2012	<a href="http://www.niaur.gov.uk/uploads/publications/NIE_Energy_PPB_Price_Control_UTILITY_Regulator_Decision.pdf">http://www.niaur.gov.uk/uploads/publications/NIE_Energy_PPB_Price_Control_UTILITY_Regulator_Decision.pdf</a>
T&D Price Control	2007-2012	<a href="http://www.niaur.gov.uk/uploads/publications/TD_Final_proposals_Sep_t_06.pdf">http://www.niaur.gov.uk/uploads/publications/TD_Final_proposals_Sep_t_06.pdf</a>
SONI	2007-2010	<a href="http://www.niaur.gov.uk/news/view/utility_regulator_publishes_soni_price_control_decision_paper/">http://www.niaur.gov.uk/news/view/utility_regulator_publishes_soni_price_control_decision_paper/</a>

**Table 2** Current gas price controls

Document	Implementation	Link to our website
firmus Energy Distribution PC02 Price Control Decision	2009 - 2013	<a href="http://www.niaur.gov.uk/uploads/publications/Firmus_Final_Determination_Jan_2009.pdf">http://www.niaur.gov.uk/uploads/publications/Firmus_Final_Determination_Jan_2009.pdf</a>
Decision on Phoenix Supply Price Control	2009 - 2011	<a href="http://www.niaur.gov.uk/uploads/publications/Phoenix_Supply_Price_Control_Final_Determination_2009.pdf">http://www.niaur.gov.uk/uploads/publications/Phoenix_Supply_Price_Control_Final_Determination_2009.pdf</a>
Phoenix Distribution Price Control Review	2007 – 2011	<a href="http://www.niaur.gov.uk/uploads/publications/PNG_-_Public_Determination.pdf">http://www.niaur.gov.uk/uploads/publications/PNG_-_Public_Determination.pdf</a>

### 1.3. Structure of the Northern Ireland energy sector

Our core functions relate largely to three areas of the product/value chain of the energy sector:

**Wholesale markets**, consisting of regulatory control over the wholesale end of the utility markets, notably generation issues and licenses, SEM, economic purchasing obligations, hedging and wholesale energy purchasing strategies.

Regulating **networks** consists of:

effectively regulating natural monopolies and incentivising efficient behaviour

guarding against market abuse by dominants

establishing level playing fields and third party access to monopoly networks

price controls (including control of those energy retail sectors where monopolistic attributes remain and competition is insufficient to fully protect customers)

protection of customers (network tariffs and service quality)

safety and environmental issues.

In the **energy supply/retail sector** the key issues are developing effective competition, customer protection in terms of price and service quality.

**Figure 2** Structure of the energy sector

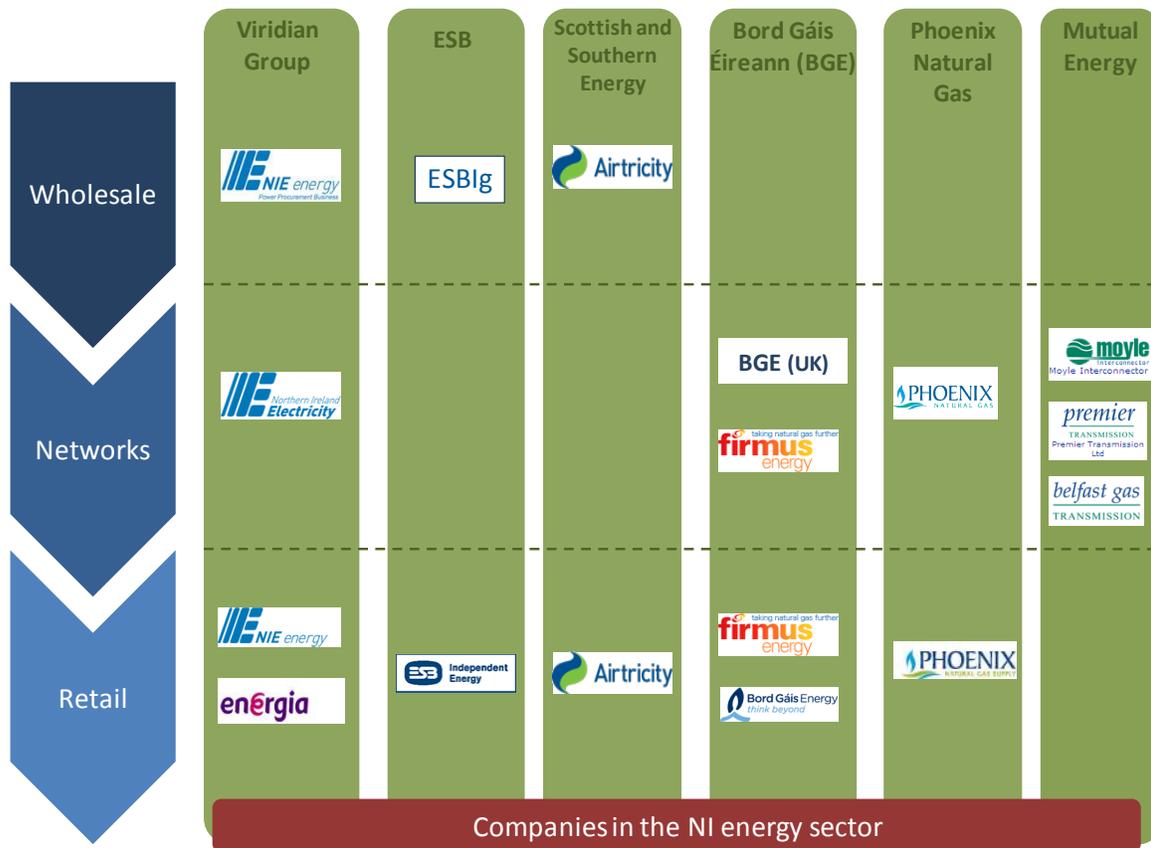


## Energy sector's main agents

This section is aimed at showing a brief overview of the main agents playing a role in the gas and electricity sectors in Northern Ireland. Some are also active players in the RoI or GB energy sectors. In addition to the licence holders included in the following table are those licence holders who have been granted a licence but are not active in the market.

The industry players related to the energy regulated sectors can be represented by the following diagram. It should be clarified that we do not regulate all the entities represented on it, for example, we regulate Phoenix Natural Gas and Phoenix Supply, but we do not regulate Terra Firma, the company who owns those. The names of the main companies, at the top of the diagram have been included only for information purposes.

**Figure 3** The structure of the Energy Sector in Northern Ireland



**Viridian Group** <http://www.viridiangroup.co.uk/default.aspx?CATID=220>

Viridian Group owns several companies including, Northern Ireland Electricity, Energia, Huntstown Power, Powerteam Electrical Services and NIE Energy Supply.

NIE was incorporated in 1991 as a public company and was subsequently listed in 1993. Viridian Group (Viridian) was originally formed as a new holding company in 1998 following a capital

reorganisation under which the Group's unregulated activities were separated from NIE. It carried on four regulated businesses in Northern Ireland: transmission and distribution through NIE T&D; power procurement through PPB; transmission system operation through SONI; and supply of electricity through NIE Supply. In the gas market Energia also has a licence to supply gas in the Greater Belfast area.

In December 2006, Viridian was taken over by an investment bank, called Arcapita, and on August 2007 Viridian was re-registered as a private company.

Within Viridian Group:

- Northern Ireland Electricity (NIE) comprises the planning, development, construction, operation and maintenance of the transmission and distribution network which is used to convey electricity from generating stations in Northern Ireland to customers' premises. It is responsible for the regulated transmission and distribution of electricity in Northern Ireland. The electricity grid comprises a number of interconnected networks of overhead line and underground cables, which are used for the transfer of electricity to customers via a number of substations. There are approximately 2,100km of transmission network, of which some 80km are underground, and approximately 42,900km of the distribution system, of which some 13,100km are underground. There are more than 800,000 customers connected to the distribution system.

The T&D business derives its revenue principally through Use of System (UoS) charges levied on suppliers.

On privatisation, NIE generation division was divided into four companies based on four stations: Kilroot (624MW) and Belfast West (229MW) which are coal-fired, and two oil-fired stations, Ballylumford (1,080MW) and Coolkeeragh (406MW). The stations were assigned long-term off-take deals (Generating Unit Agreements) with NIE and then sold off. The first two stations were bought by Nigen, after that Belfast West was decommissioned and currently Kilroot is owned by AES Kilroot. Ballylumford was sold to British Gas and converted from oil firing to gas. Coolkeeragh was bought by the station's management team and then rebuilt.

- NIE Energy supplies electricity to more than 790,000 homes and businesses in Northern Ireland.
- Energia was formed in 1999 as the retail arm of the Viridian Group in the de-regulated markets in Ireland. It obtains wholesale electricity from a number of sources, including principally Viridian's 750MW Huntstown Power Station north of Dublin. Energia is also a supplier of electricity generated from renewable sources and supplies gas in NORTHERN IRELAND and ROI to large industrial and commercial customers.
- NIE Energy Power Procurement Business (PPB) manages a portfolio of power purchase agreements with a total contracted generation capacity of 1532MW.
- Powerteam Electrical Services are a high voltage electrical contractor providing turnkey solutions covering the design, equipment procurement, installation, commissioning and project management of both substations and overhead lines from low voltage to 400kV. Customers are spread throughout Great Britain and Ireland and include distribution network operators, wind farm developers and private High Voltage businesses.
- Huntstown Power is an independent generator and consists of two combined cycle gas turbine stations with a total generation capacity of 747 megawatts.
- Eco Wind Power is actively involved in the Irish wind energy sector.

**ESB** <http://www.esbi.ie/>

ESB International (ESBI) is a wholly owned subsidiary of Ireland's premier utility, ESB Group. It has operations across the energy value chain. It also provides engineering design, construction management and strategic consultancy services. Its annual turnover was €805 million in 2007.

ESBI also operates as a group, representing all of ESB's unregulated business, which include:

- **ESBI Engineering and Facility Management (ESBIe-fm):** A provider of commercial engineering, environmental and asset management services. It also provides services to international utility clients in the areas of management contracting, consulting and owner's engineer. It has also a business dedicated to the operation, maintenance and facility management of international power plants.
- **ESB Independent Energy (ESBIE):** Electricity supply business in the Single Electricity Market. ESBIE also works with ESBIG to create a vertically integrated utility business, involved in generation, trading and supply.
- **ESB Independent Generation (ESBIG):** An independent power plant generator and trader in the Single Electricity Market. ESBIG also owns tolled and Renewables power plants internationally.
- **ESB International Investments (ESBII):** It is responsible for the development of international electricity investment opportunities.
- **ESBI Carbon Solutions:** Established in 2008, it develops, finances and participates in greenhouse gas emission mitigation projects under Clean Development Mechanism and Joint Implementation projects.

### **Scottish and Southern Energy (SSE)**

SSE was formed in December 1998 following the no-premium merger of Scottish Hydro Electric and Southern Electric. It is an integrated electricity and gas provider, the UK's largest generator of renewable energy, owning and operating over 1,300MW of hydro and one of the UK's largest operational wind farms. Its headquarters are in Scotland.

Some of the SSE energy related businesses are: Southern Electric, Scottish Hydro Electric, Swalec and Atlantic Electric and Gas (in the energy supply sector), Scottish and Southern Energy (micro-generation and energy-related services), Scottish and Southern Energy Power Distribution (transmission and distribution of electricity), Scottish and Southern Energy Gas Storage, Scottish and Southern Energy National Networks (who build and operate private electricity and gas networks throughout the UK), Scotia Gas Networks PLC, etc.

In January 2008, the sale of Airtricity was completed to Scottish and Southern Energy Plc. Airtricity (<http://www.airtricity.com>) is a renewable energy company developing and operating wind farms across Europe. It is both a generator and supplier of electricity. Airtricity own 14 wind farms in operation throughout Republic of Ireland, Northern Ireland and Scotland generating almost 400MW. A further 9 wind farms totaling almost 400MW are under construction with a global pipeline of over 10,000MW.

**Bord Gáis Éireann (BGE) UK** <http://www.bordgais.ie/networks/index.jsp?&pID=102&nID=109>

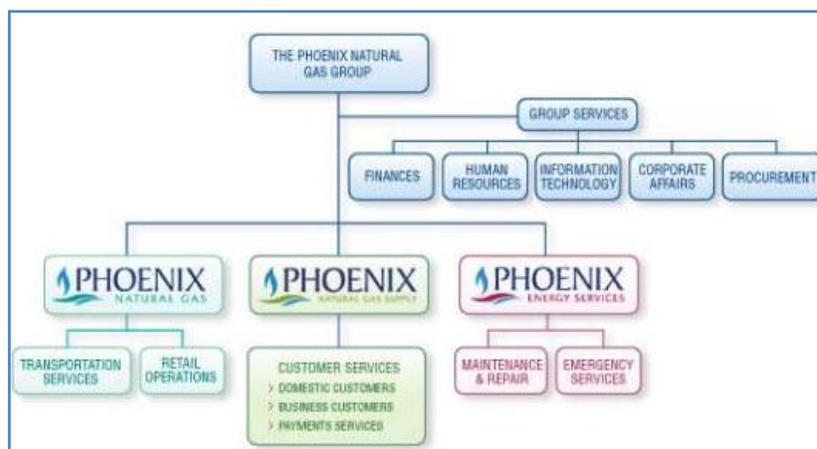
- Since 2002 BGE(UK) has been licensed to convey gas along two transmission pipelines in Northern Ireland - the North West Pipeline and the South-North gas pipeline. The [North-West gas pipeline](#), from Carrickfergus to Londonderry, was commissioned in October 2004 and serves the Coolkeeragh power station and also enables the development of gas networks adjacent to the route. Similarly the [South-North gas pipeline](#) runs from Gormanston, in County Meath, to Ballyclare, Co. Antrim, where it links into the North-West pipeline. It was commissioned in October 2006.
- A subsidiary of Bord Gáis Éireann, firmus Energy Ltd., is licensed by the Regulator to supply natural gas to 10 towns in Northern Ireland.
- firmus Energy, also supplies gas in the competitive Greater Belfast gas market to a number of industrial and commercial customers and is currently undertaking a pilot scheme to supply gas to a small number of selected customers. During 2009, it will enter the electricity supply market in Northern Ireland, initially selling competitive products to business customers. firmus is operating as a joint distribution and supply company. An initial distribution price control was completed in 2007 with a full five year control implemented from 2009.

**Phoenix** [www.phoenix-natural-gas.co.uk](http://www.phoenix-natural-gas.co.uk)

Since October 2005 Phoenix Natural Gas is has been owned by Kellen Acquisitions Ltd, an investment vehicle for Terra Firma.

EU Directive 2003/55/EC required that the supply and distribution functions of the Phoenix group would be separated into two separate businesses as they had over 100,000 customers using natural gas. Currently, the Phoenix Natural Gas Group has the following structure:

**Figure 4** Phoenix Group Structure



- **Phoenix Natural Gas Limited:** this is Phoenix's distribution company which develops, owns and operates the gas distribution network in the Greater Belfast and Larne area.

- **Phoenix Supply Limited:** this is Phoenix’s supply business which supplies natural gas to customers in the Greater Belfast and Larne area. PSL’s activities include the purchasing of gas, customer service provision, customer billing, customer contact centre and credit control operations.
- **Phoenix Energy Services Limited:** this is a gas servicing company established in 2001 to provide servicing and maintenance activities as well as emergency services to gas users.

**Mutual Energy [www.mutual-energy.com](http://www.mutual-energy.com)**

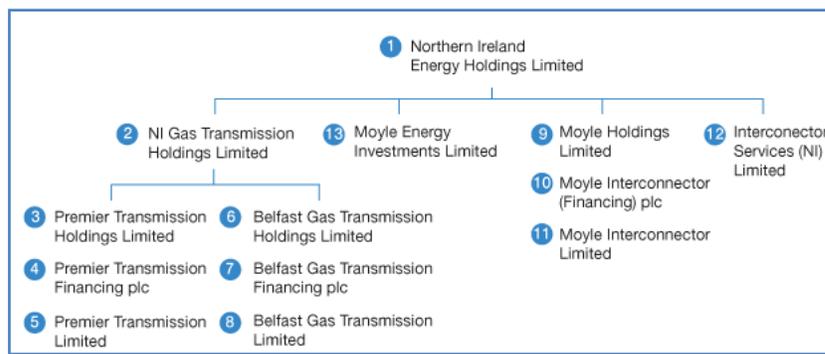
Mutual Energy (formerly Northern Ireland Energy Holdings (NIEH) is a mutual company which manages energy assets in the long term interests of Northern Ireland's energy consumers. Having no shareholders, any financial surpluses are used for the benefit of energy consumers. This combined with long term secure finance has allowed the company to manage major energy assets at a very low cost. It was created to help address high energy prices in Northern Ireland. It is governed by 30 members who represent broad reflection of community. The Corporate Governance Review of Northern Ireland Energy Holdings has been released by the Regulator in May 2009<sup>7</sup>.

Premier Transmission Limited (a wholly owned subsidiary of Mutual Energy) own the Scotland to Northern Ireland Pipeline (SNIP) which links Twynholm in Scotland with the Ballylumford power station in Co. Antrim.

Belfast Gas Transmission Ltd. (a wholly owned subsidiary of Mutual Energy) own the Ballylumford Torytown Pipeline (‘BTP’) which runs from Ballylumford power station to the Belfast distribution network. BGTL and PTL have the same management team but are legally separate companies.

Since 2005, they as well own and operate the Moyle Interconnector (Moyle), which links the electricity systems of Northern Ireland and Scotland.

**Figure 5 Mutual Energy**



<sup>7</sup> Corporate Governance Review of Northern Ireland Energy Holdings: [http://www.niaur.gov.uk/uploads/publications/20090522\\_NIEH\\_Corporate\\_Governance\\_Review\\_Decision\\_Paper.pdf](http://www.niaur.gov.uk/uploads/publications/20090522_NIEH_Corporate_Governance_Review_Decision_Paper.pdf)

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

**Table 3** Main energy assets

ACTIVITY	ASSETS	OPERATOR & OWNER	REGULATED BY	HOW WE REGULATE?	PRICE CONTROL
Power station	<b>Ballylumford</b> CCTG (500 MW)	PPL (Premier Power Limited)	NIAUR	Electricity Generation Licence, SEM from 1/11/2007	NO
Power station	<b>Cookeragh</b> CCTG (400 MW)	ESBIE	NIAUR	Electricity Generation Licence	NO
Power station	<b>Kilroot</b> (Coal, Heavy Fuel – 600 MW)	AES	NIAUR	Electricity Generation Licence	NO
Interconnector	<b>Moyle Interconnectors</b>	Northern Ireland Energy Holdings	NIAUR	Moyle Interconnector Transmission licence	NO
Transmission lines	<b>North/South tie-lines</b> Strabane-Letterkenny Enniskillen-Corraclassy Tyrone – Cavan	ESB and NIE T&D  (forecasted for 1012)	TOs	Transmission licence	YES
Transmission pipeline	<b>SNIP</b>	PTL (Premier Transmission Limited)	NIAUR	Gas Transmission Licence	NO <sup>8</sup>
Pipeline	<b>BGTP</b> (Belfast Gas Transmission Pipeline)	BGTL	NIAUR	Gas Transmission Licence	NO
Transmission pipelines	<b>NW</b> (NorthWest) & <b>SN</b> (SouthNorth) pipeline:	Owned by BGE (UK)	NIAUR	Gas Transmission Licence	YES
Distribution pipelines	<b>PNG network</b> <b>firmus network</b>	Phoenix Natural Gas firmus Energy	NIAUR	Gas Distribution Licence	YES

**System Operator (SONI)** [www.soni.ltd.uk](http://www.soni.ltd.uk)

SONI Ltd is the Transmission System Operator (“TSO”) in Northern Ireland and is a wholly owned subsidiary of Eirgrid plc, the TSO in the Republic of Ireland. SONI’s primary responsibility as TSO is the safe, secure and economic operation of the electricity transmission system in Northern Ireland. In conjunction with Eirgrid, SONI are also the Single Electricity Market Operator (“SEMO”) responsible for the operation of the Single Electricity Market (“SEM”) on the island of Ireland.

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

<sup>8</sup> To improve the rate at which the SNIP and BGTP could be financed the normal regulatory control over any allowed operational expenditure accrued by both PTL and BGTL has been removed. The resulting transfer of risk onto consumers, through potential inefficient operating costs, can be limited through corporate governance licence conditions contained within the conveyance licences held by both PTL and BGTL. One of which is a condition that, in the form of a shadow price control, allows the Utility Regulator to review the level of operating expenditure forecast to be incurred by PTL and BGTL.

## **Market Operator (SEMO)**

SEMO is the market operator responsible for the administration of the Single Electricity Market. The organisation is managed as a contractual joint venture between EirGrid, the transmission system operator for the Republic of Ireland, and the System Operator for Northern Ireland (SONI). SEMO is licensed and regulated cooperatively by the Commission for Energy Regulation (CER) in Ireland and the Utility Regulator.

The Single Electricity Market (SEM) is the wholesale electricity market operating in the Republic of Ireland and Northern Ireland. The SEM represents the first market of its kind in the world as a gross mandatory pool, operating with dual currencies and in multiple jurisdictions,. The market encompasses approximately 2.5 million electricity consumers, of which 1.8 million are in the Republic of Ireland and 0.7 million are in Northern Ireland.

## **Consumer Council for Northern Ireland (CCNI) <http://www.consumercouncil.org.uk/>**

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

The Consumer Council has an energy section that deals with complaints and provides consumer advice in relation to energy issues, liaise with customers, energy companies and other relevant parties. They also undertake research and produce publications on issues such as fuel poverty, energy efficiency, renewable energy and fuel prices. Essentially the Consumer Council provides free, impartial information and handles complaints on behalf of consumers who have been unable to resolve problems directly with their energy supplier or meter operator.

## **1.4. Wholesale markets**

### **Electricity**

#### **Conventional generation**

Northern Ireland has three major electricity generating stations:

**Ballylumford Power Station**, in Co Antrim, is owned and operated by Premier Power Ltd. the provider of over 50% of Northern Ireland total generating capacity, and 17% of the island of Ireland's capacity. The Ballylumford site includes a combined cycle gas turbine (CCGT) facility (600MW) and a conventional turbine plant. In addition to this, there are two open cycle gas

turbine units (OCGTs) at 53MW each that can be used as emergency systems to support the grid.

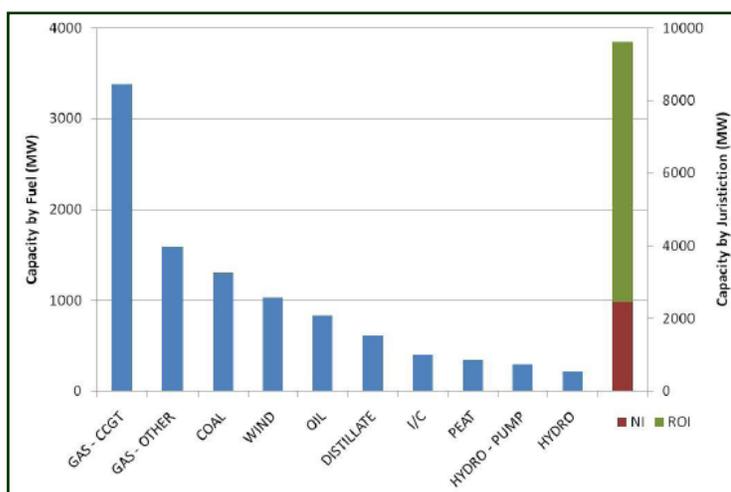
**Coolkeeragh ESB Power Plant**, in Co. Derry, is a natural gas fired combined cycle power plant with 400MW of capacity, which started to operate in 2005. It was constructed on the site of the old Coolkeeragh power station by Coolkeeragh Power Ltd. and ESB International.

**Kilroot Power Station**, in Co Antrim, is a dual coal/oil fired plant with a 520MW capacity. It belongs to AES Kilroot Power Ltd since 1992, when NIE sold its four power stations in Northern Ireland.

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

The generation fuel mix in the SEM is shown in the following chart. Most of the generation capacity is gas-fired, with around 3,400MW of CCGT plant and 1,600MW of other gas-fired plant including OCGT.

**Figure 6** Generation capacity per fuel type



Source: SEM, MMU, Public Report 2009.

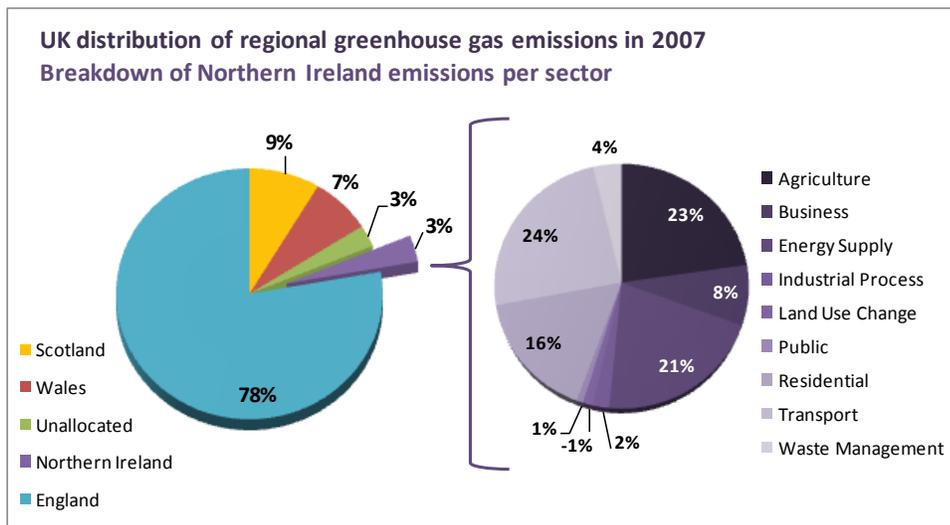
### Emissions of atmospheric pollutants

Electricity generation is directly related to the emissions of atmospheric pollutants. In Northern Ireland, emissions from the energy sector<sup>9</sup> represent more than 70% of total greenhouse gas emissions. However, this is lower than the UK average contribution from this sector. This is because Northern Ireland does not have any refineries, iron and steel industry, oil and gas terminals, coal mining, and because leakage from the gas supply network is minimal due to the relatively young age of the network.

Power generation is still the largest source of CO<sub>2</sub> in Northern Ireland with road transport the second largest source. Greenhouse gas emissions from power generation (mostly CO<sub>2</sub>) represent 35% of total emissions from the energy sector, and 26% of total emissions.

<sup>9</sup> Electricity generation, petroleum refining, manufacturing, industry and construction, transport, etc.

**Figure 7** Greenhouse gas emissions in 2007



Source: UK Air Quality Archive. Greenhouse Gas Inventories for England, Scotland, Wales and Northern Ireland: 1990 - 2007

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

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

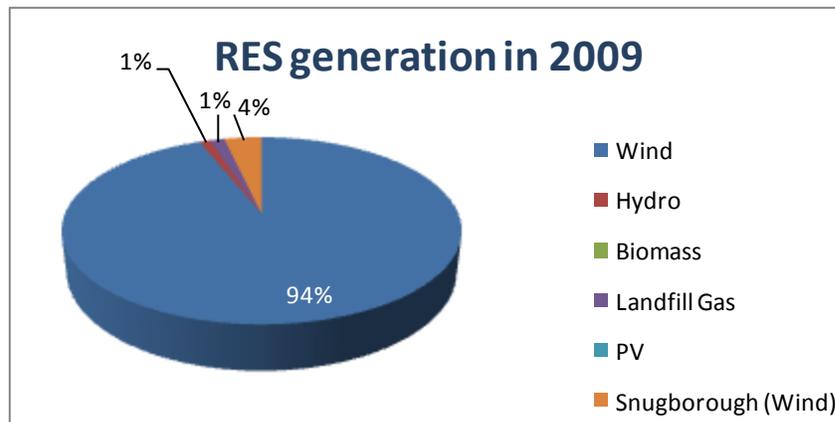
Northern Ireland does not have any indigenous gas supplies, but the availability of natural gas is desirable because of the environmental and social benefits. Natural gas as an energy option has the following advantages:

- Less atmospheric pollution: the use of natural gas as a fuel creates less CO<sub>2</sub> emissions than traditional generation (natural gas produces 25% less carbon dioxide emissions than other fossil fuels).
- Efficiency: the CCGT power plants have an approximate efficiency of 55%, while in coal or fuel generation plants the comparative figure is approximately 30-35%.
- Security of supply: through diversification of energy sources.

## Renewable Energy Sources

Currently 9.65% of electricity supplied in Northern Ireland is generated from RES (Renewable Energy Sources).

Figure 8 Renewable generation from Apr 09 to Aug 09



Source:NIE.

## Electricity generation licences

There are number of parties who hold electricity generator licenses in Northern Ireland:

- AES Kilroot Generating Ltd
- AES Kilroot Ltd (Kilroot Power Ltd)
- Altahullion Wind Farm
- Ballylumford Power Ltd
- Coolkeeragh Power Ltd
- Crockagarran Wind Farm Ltd
- Garves Wind Limited
- Gruig Wind Farm Ltd
- Hunters Hill Wind Farm Ltd
- Lendrum's Bridge Wind Farm
- Lough Hill Wind Farm Ltd
- Mantlin Ltd (Slieve Rushen Wind Farm)
- Owenreagh Wind Farm Ltd

For further information on current Electricity Licences, please check the following link:  
[http://www.niaur.gov.uk/uploads/publications/Electricity\\_Licensees\\_for\\_Website.pdf](http://www.niaur.gov.uk/uploads/publications/Electricity_Licensees_for_Website.pdf)

### **Single Electricity Market (SEM)**

The Single Electricity Market (SEM) was established in November 2007, combining the two separate wholesale markets North (approximately 0.7 million electricity customers) and South (around 1.8 million customers) into one cross-border market. The establishment of the SEM involved the input and cooperation of all parties in the electricity industry across the whole island. The Single Electricity Market is the first cross border market of its kind in Europe. All electricity produced on the island is sold into one large “pool”, while supply companies buy their power out of this pool with equal access for all suppliers. The market is specifically designed to set the cheapest possible price for electricity at all times and to ensure that no company has an undue influence over electricity prices.

The SEM can be considered an important development for the energy sector on the island, with benefits to all customers such as improving choice across the island and enhancing electricity security of supply.

### **Gas**

#### **Gas sources**

In 1996 natural gas became available in Northern Ireland, courtesy of a pipeline connection from Scotland to provide gas for the Ballylumford power station. The pipeline link with Scotland, called the Scotland-Northern Ireland Pipeline (or SNIP), had sufficient capacity to allow the development of a downstream distribution and supply network in the Greater Belfast area, which Phoenix began constructing in late 1996. There are no indigenous sources of gas in NI, it all comes from GB.

## **1.5. Networks**

### **Electricity Transmission and Distribution networks**

The Northern Ireland Grid system comprises 2,000 circuit kilometres of 110kV and 275kV overhead line and cable with a maximum demand of about 1,850MW<sup>10</sup>, and links the three power stations and external interconnectors to 30 main substations. SONI direct the output of each generating unit on the Northern Ireland System to match supply to demand.

The T&D assets belong to NIE who are responsible for planning, developing and maintaining the Transmission System in Northern Ireland. They are also under Price Control. NIE holds the NIE Plc Transmission & Distribution licence  
([http://www.niaur.gov.uk/uploads/publications/Electricity\\_Licensees\\_for\\_NIAUR\\_Website.pdf](http://www.niaur.gov.uk/uploads/publications/Electricity_Licensees_for_NIAUR_Website.pdf)).

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<sup>10</sup> NIE Transmission Charging Statement (March 2008).  
[http://www.nie.co.uk/marketopening/pdfs/NIE\\_Transmission\\_Charging\\_Statement\\_March\\_2008.pdf](http://www.nie.co.uk/marketopening/pdfs/NIE_Transmission_Charging_Statement_March_2008.pdf)

## Interconnectors

Northern Ireland's electricity grid is linked to RoI through one major interconnector between the two grids. The current Louth to Tandragee interconnector consists of a 275 kV double circuit overhead line and it has an approximate capacity of 500 MW. There are also two small existing 110 kV standby North-South interconnectors (Strabane - Letterkenny and Enniskillen – Corraclassy) which allow NIE and ESB to provide mutual short term technical assistance.

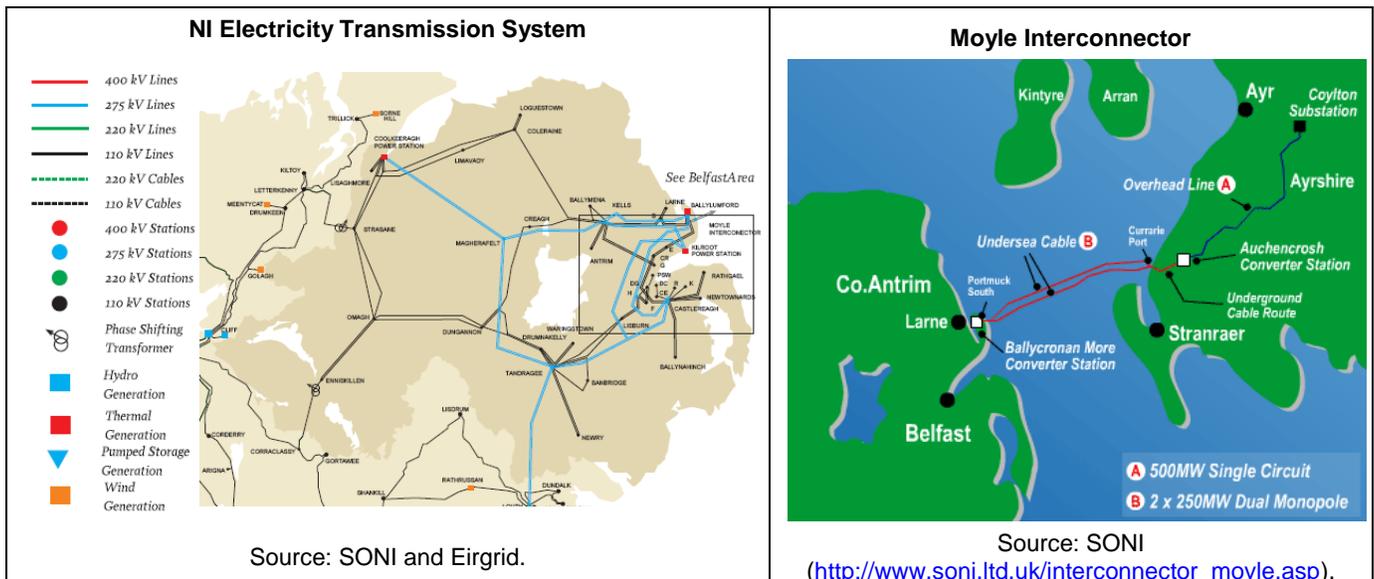
Greater transfer capacity is required, so a new North-South interconnector, which will further connect the electricity systems of Northern Ireland and the Republic of Ireland has been planned for completion by 2012. The Tyrone to Cavan interconnector will help reduce network operating costs and strengthen electricity supply on both power systems. It will also support greater competition in the electricity market and facilitate more electricity generated from renewable sources being brought onto the system.

Also, there is the Moyle Interconnector, which holds the Moyle Interconnector Transmission licence

([http://www.niaur.gov.uk/uploads/publications/Electricity\\_Licensees\\_for\\_NIAUR\\_Website.pdf](http://www.niaur.gov.uk/uploads/publications/Electricity_Licensees_for_NIAUR_Website.pdf)).

This transmission asset has been included above as a generation asset.

Figure 9 Northern Ireland electricity network



There are currently two Transmission Licence holders, *Northern Ireland Electricity plc*, who holds combined licences for transmission and supply, and *Moyle Interconnector Ltd*. These are consolidated licences at February 2008.

## Gas Transmission and Distribution pipelines

Currently all Northern Ireland demand is supplied via the SNIP, however, arrangements are in place which facilitate the use of the SNP in the event of an emergency in Northern Ireland or in the Republic of Ireland.

**Figure 10** The transmission network in Northern Ireland



Source: Joint Capacity Statement 2009.

Northern Ireland has three transmission system operators (TSOs), namely Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL) and BGE (UK) Ltd. The transmission companies are required under their respective conveyance licences to operate, develop and maintain the transportation system. Additionally, the transmission companies are required to jointly publish a Northern Ireland Capacity/Pressure Report each gas year.

The Northern Ireland distribution system is comprised of two networks – the Phoenix network in the Greater Belfast and Larne area and the firmus network in the 10 towns along the SNP and NWP. Planning and development of the distribution network is the responsibility of the respective distribution system operators (DSOs) with development and capacity obligations set out in the licences.



## 1.6. Supply sector

### Evidence of customers wanting competition

We often hear that Northern Ireland consumers would like to have more choice in their energy suppliers. We have anecdotal evidence for this preference, and also some limited quantitative evidence to this effect. It is based on an omnibus survey conducted in January and February 2009, covering a fully representative cross section of the Northern Ireland adult population. Amongst the queries, there were a range of questions about overall satisfaction with utility companies.

Of those who are not satisfied with utility companies in the province, an overwhelming majority (80%) state electricity prices as the main reason for this. Lack of competition between utility companies is perceived as a problem by 27% and the price of gas is mentioned by just over one in five (23%). These reasons all imply discontent with price of energy in Northern Ireland, and the top two reasons could be linked due to the fact that there is one electricity supplier in the country.

In terms of future developments the Northern Ireland general public would support further expansion of renewable energy sources and reduced utility tariffs for vulnerable customers equally (26%). Also of high importance is a competitive market with more energy companies which could effectively lower the cost of gas and electricity in the province (22%).

Inferences to be drawn from the research and work we have carried out on understanding desired outcomes from retail competition include:

- a. That there is indeed widespread consumer appetite for more retail competition.
- b. That this appetite may be based on a view held by some respondents that competition will deliver lower prices (a high priority for consumers). Consumer interest in choice may, therefore, be provisional depending whether competition unlocks real savings.
- c. There is widespread willingness to give switching a try.
- d. There is some risk that switching rates and, potentially, consumer benefits from competition, might be uneven between different socio-economic and age groups.

### Supply Licensees in electricity and gas sectors

We have issued 18 electricity supply licences. However, some of these are dormant, have withdrawn from the market, or essentially only supply affiliated power stations. Licence holders who remain active in the market are NIE Energy (NIEE), Airtricity, ESB Independent Energy, Bord Gais Eireann, and Energia.

Nigen Supply Ltd and Premier Power Ltd will not be operating under their supply licences. Airtricity, Bord Gais, Energia and ESBIE are currently active in the "Green" electricity market for all non-domestic customers. Bord Gais, Energia and ESBIE are currently active in the "eligible" market for non-domestic customers. The consolidated licences are:

- Airtricity Energy Supply Ltd
- Bord Gais Eireann
- Energia (Viridian Energy Supply Ltd)

- ESB
- ESB IE (NI) Ltd
- firmus Energy (supply) ltd
- Lowlands Health & Energy Ltd
- NIE Energy Ltd (Supply)
- NPower
- Power & Gas Ventures Ltd
- E ON (formerly Powergen)
- Premier Power Ltd, supplying Ballylumford Power Station
- Quinn Energy Supply Ltd
- Regent Electricity (NI) Ltd
- Scottish Power Energy Retail Ltd
- SSE (Ireland) Ltd
- SSE Energy Supply Ltd
- Trade Link Solutions Ltd

In relation to gas, there are currently twelve Gas Supply licence holders, three of which hold licences to supply Ballylumford Power Station.

- BGE Towns licence entitles the company to supply gas along the route of the NWP and SNP.
- British Gas Trading Ltd
- ESBII Ltd
- firmus Energy, supplying Towns and Belfast.
- Northern Ireland Electricity plc
- Phoenix Supply Limited. They hold combined licences for conveyance and supply in respect of its licensed area (Greater Belfast).
- Power & Gas Venture Ltd
- Premier Power Ltd, supplies Ballylumford Power Station
- VAYU Ltd
- Energia (Viridian) Supply Ltd
- Airtricity Energy Supply NI Ltd

For further information on current Electricity and Gas Licences, please check the following links: [http://www.niaur.gov.uk/uploads/publications/Electricity\\_Licensees\\_for\\_Website.pdf](http://www.niaur.gov.uk/uploads/publications/Electricity_Licensees_for_Website.pdf) and [http://www.niaur.gov.uk/uploads/licenses/Current\\_Gas\\_Licences.pdf](http://www.niaur.gov.uk/uploads/licenses/Current_Gas_Licences.pdf)

## PART TWO: CORE RETAIL INFORMATION

### Introduction

This Part Two will be a key part of future editions of this annual Energy Retail Report. The Utility Regulator is undertaking a programme of work aimed at fostering enhanced levels of competition in our energy retail sectors. We discuss the policy rationale for that work below. We would like to understand stakeholders' views particularly on this section of the report with the objective of improving future editions. We want to use this and particularly future editions of the report to monitor and collect information on the extent of competition in our energy supply markets and the extent to which participants view our supply markets as readily contestable. We do not think that the information provided in this *Part Two Core Retail Information* is currently sufficient in terms of measuring the contestability of the market – and we intend to do more work during 2010 to enhance our monitoring and knowledge of the key aspects of our energy retail markets. We would like responses from stakeholders to identify other piece of information you would like to see reflected or information that we should remove in future editions as being irrelevant.

In April 2009 we released a consultation on “*Energy Retail Competition Work Programme: General Overview and Rationale*”<sup>11</sup>. This document reviewed the rationale for a programme of regulatory intervention to address entry barriers and enable choice. It set out evidence about current consumer expectations in Northern Ireland, about the current legal framework for retail competition, and about costs and benefits so far. It also drew on international evidence in relation to costs and benefits, since retail competition is a reality (in theory or reality) in many jurisdictions in the EU and around the world.

We have a statutory duty to consult on and publish a Forward Work Programme (FWP) before the commencement of each financial year. This sets out the projects (other than those comprising routine activities) that we intend to undertake in that coming year. The FWP includes several projects aimed at enhancing energy retail competition and we have set up a dedicated team to deliver these projects. Although this work programme is already under way, it will be kept under review in the light of future consultations and ongoing review of implementation success.

In broad terms, the work programme for the coming period includes the following main project areas:

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<sup>11</sup> Consultation on Energy Retail Competition Work Programme: General Overview and Rational, released in April 2009: [http://www.niaur.gov.uk/uploads/publications/Retail\\_Competition\\_080409.pdf](http://www.niaur.gov.uk/uploads/publications/Retail_Competition_080409.pdf)

**Figure 12** Retail Work programme

Project	Main tasks
Incumbent regulation	Analyse and implement appropriate way forward in relation to “k factors”, allowed margins and regulated tariff structures in terms of helping to deliver effective retail competition (on electricity sector at this stage). Supply price controls completed transparently and to facilitate competition where necessary.
Data transparency	Develop policy/strategy on data transparency in relation to delivering more effective retail competition. Electricity and Gas Directorates to ensure all suppliers have access to the appropriate information to allow them to compete on an equal basis.
Incumbent tariff approvals	Ensure accuracy and transparency of tariff approvals.
Wholesale market liquidity	Promote a more liquid contract and secondary hedging market in electricity; trading screen/platform work (electricity sector).
Standards of performance	Review and implement Supplier Standards of Performance to ensure they meet best practice.
Customer Switching Systems	Deliver Enduring Solution system for electricity switching. Examine options and spec for way forward on gas customer switching system.
Branding separation	Assess and deliver optimum way forward in relation to branding of incumbent businesses.
Supplier marketing	Assess and deliver best-practice operation of supplier marketing procedures to customers in a competitive environment.
Annual Retail Market report	Produce an annual report on the extent and state of retail competition in energy markets.
Affordable Tariffs	Develop and consult on policy options.
Supply exclusivity in the 10 towns	As part of the distribution price control will look at supply exclusivity in the 10 towns, and the timetable for market opening.
Licence modifications	Asses need for licence modifications to protect customers in event of removal of price controls.
Codes of practice	Consideration of codes of practice over offers in the non-tariff sector.
Supplier of last resort	Legislation to be put in place for these arrangements (gas sector).
Competition	Consider which metrics would be the best to measure competition and contestability in market sectors.
Tender/Billing Transparency	To examine ways of increasing transparency.
Harmonisation of retail code on all island basis	As part of Common Arrangements for Gas (CAG) retail consider harmonisation of codes.

We are currently working on the development of a consultation paper which will set out our plans for future electricity supply competition in Northern Ireland. This “Roadmap” paper will set out the policy rational for our work in this area, issues of concern as we move into a more competitive supply market and identify the steps forward we intend to take. It focuses on delivering and monitoring enhanced contestability and competitive forces in the electricity supply sector. Currently we intend to issue this early in 2010. While this consultation relates specifically to electricity, we intend to do similar thinking in relation to gas at a later point.

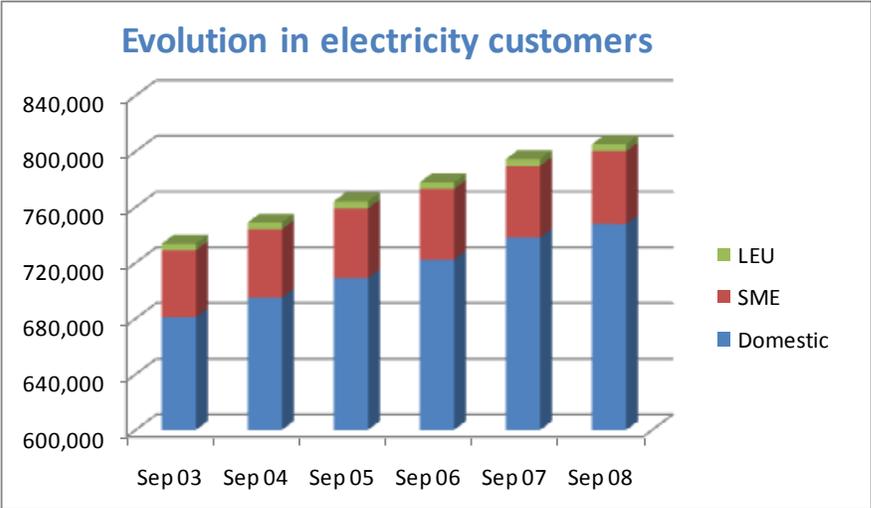
**2. Retail orientated parameters**

**2.1. Retail electricity parameters**

**(i) Customer numbers**

By September 2008 there were more than 805,000 electricity customers in NI, of which 93% were domestic customers (747,773 customers). Small and Medium Enterprises (SME) accounted for a further 6% of customers and Large Energy Users (LEU) less than 1% (5,001 customers). The evolution in the number of customers per sector is shown in the next graph.

**Figure 13** Northern Ireland electricity customers

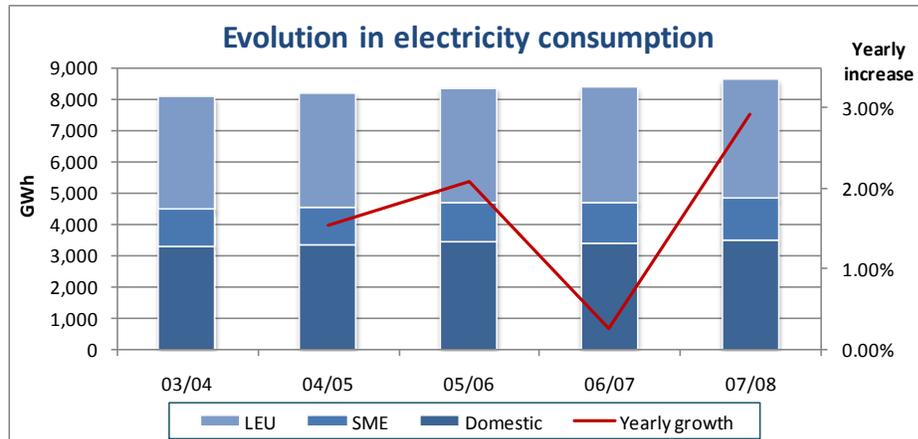


Source: NIE T&D

(ii) **Demand/consumption**

Electricity consumption in Northern Ireland in the year 2007/08 was 8,615 GWh, with the domestic sector consuming 40% approximately and the SME and LEU sectors taking the remaining 60% of consumption. The evolution in consumption by sector since 2004 is reflected in this chart below.

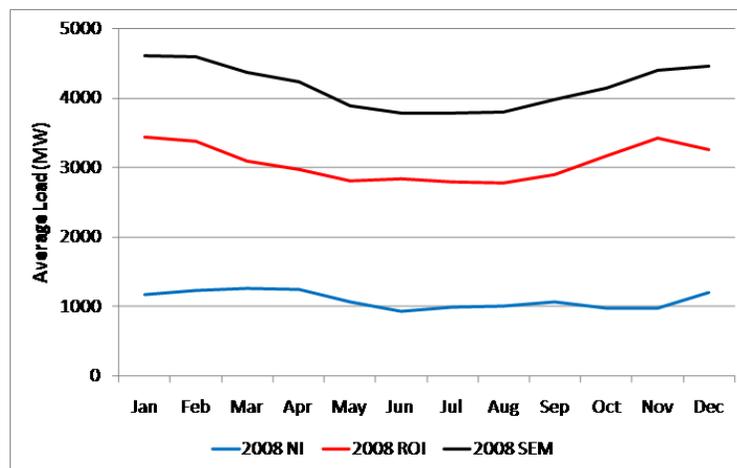
**Figure 14** Northern Ireland electricity consumption



Source: NIE T&D

Updating the above picture to reflect the impact of the economic downturn on energy demand, the evolution in electricity demand in Northern Ireland, Republic of Ireland and the Single Energy Market over the year 2008 has been as follows.

**Figure 15** Electricity demand in 2008



The Utility Regulator Market Monitoring Unit

Detailed figures for 2009 for both customer connections and usage are given in the table below for individual network cost categories.

**Table 4** Customer Connections by UoS Tariff

UoS Tariff Category	Customer Connections	Sept08 - Aug09
	Aug-09	kWh
T011 Domestic UNR	493,058	2,022,762,850
T050, T051, T053 Keypad UNR	215,751	781,305,062
T012, T014, T015 Domestic E7	24,674	249,514,874
T052, T054 E7 Keypad	16,172	104,142,796
T041, T042, T043 Off Peak *	5,459	23,790,550
T031 Commercial UNR	38,851	673,254,748
T035 <70kVA HH	3,481	142,412,436
T032 Commercial E7	1,703	37,584,995
T034 Commercial E7 & Heating	4,614	124,971,787
T033 Com Evening & Weekend	4,113	149,214,509
T021 Combined Premises	2,457	150,766,975
T022, T024, T025 Combined E7	3,135	100,666,601
T710 & T711 Total UMS		130,425,946
T101 < 1 MW MV HH STOD	4,701	1,579,098,438
T201 < 1 MW HV HH STOD	232	547,531,852
T102 > 1 MW MV Min HH STOD	1	3,805,499
T103 > 1 MW MV Med HH STOD	2	1,965,727
T202 > 1 MW HV Min HH STOD	29	314,124,252
T203 > 1 MW HV Med HH STOD	116	625,620,229
T301 < 1 MW EHV HH STOD	2	3,109,537
T302 > 1 MW EHV Min HH STOD	3	178,794,638
T303 > 1 MW EHV Med HH STOD	13	309,009,235
T401 Transmission Connected		47,135,211
T502 Gen <70 kVA MV	15	385,815
T503 Gen >70 kVA MV	-	-
T504 Gen <70 kVA HV	3	43,552
T505 Gen >70 kVA HV	-	-
T506 Gen <70 kVA EHV	18	399,946
T507 Gen >70 kVA EHV	8	502,194
<b>Total</b>	<b>813,152</b>	<b>8,302,340,254</b>

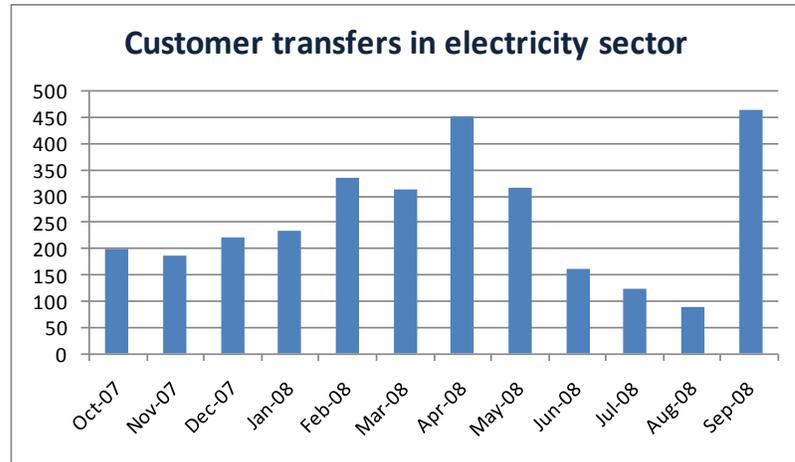
Source: NIE T&D

\* Off Peak Customers will also be assigned to tariff T011 or T031

**(iii) Market shares/switching**

The graph below shows the available information we have on transfer of customers in the Northern Ireland electricity sector. The total transfers in the year between the October 2007 and September 2008 was 3,095. We wish to collect more data on switching in future years, by customer category, etc.

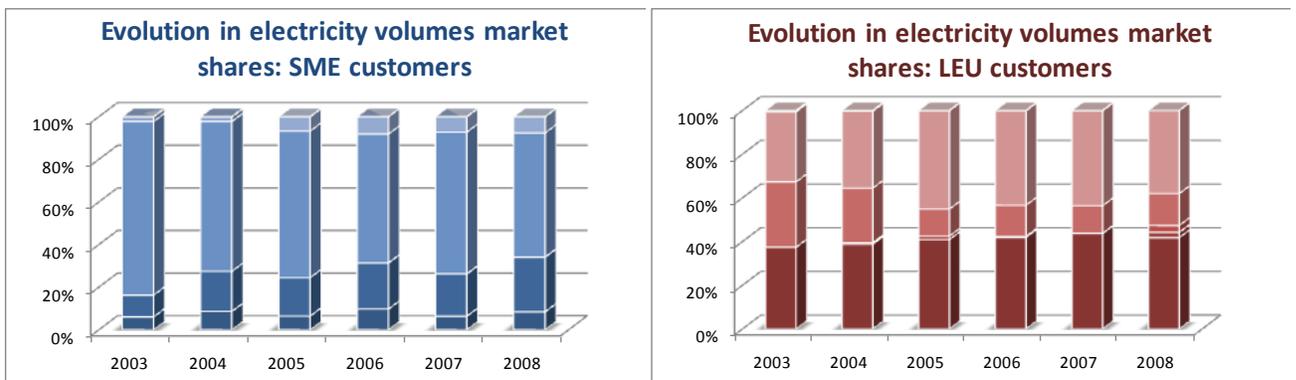
**Figure 16** Evolution in electricity customer transfers



Source: NIE T&D

There is no competition in the Northern Ireland electricity supply sector at domestic level, where all customers are supplied by the incumbent (NIEES). In contrast, there is active competition in SME (Small and Medium Enterprises) and LEU (Large Energy Users) sectors. Switching today has led to the following patterns in the mentioned sectors.

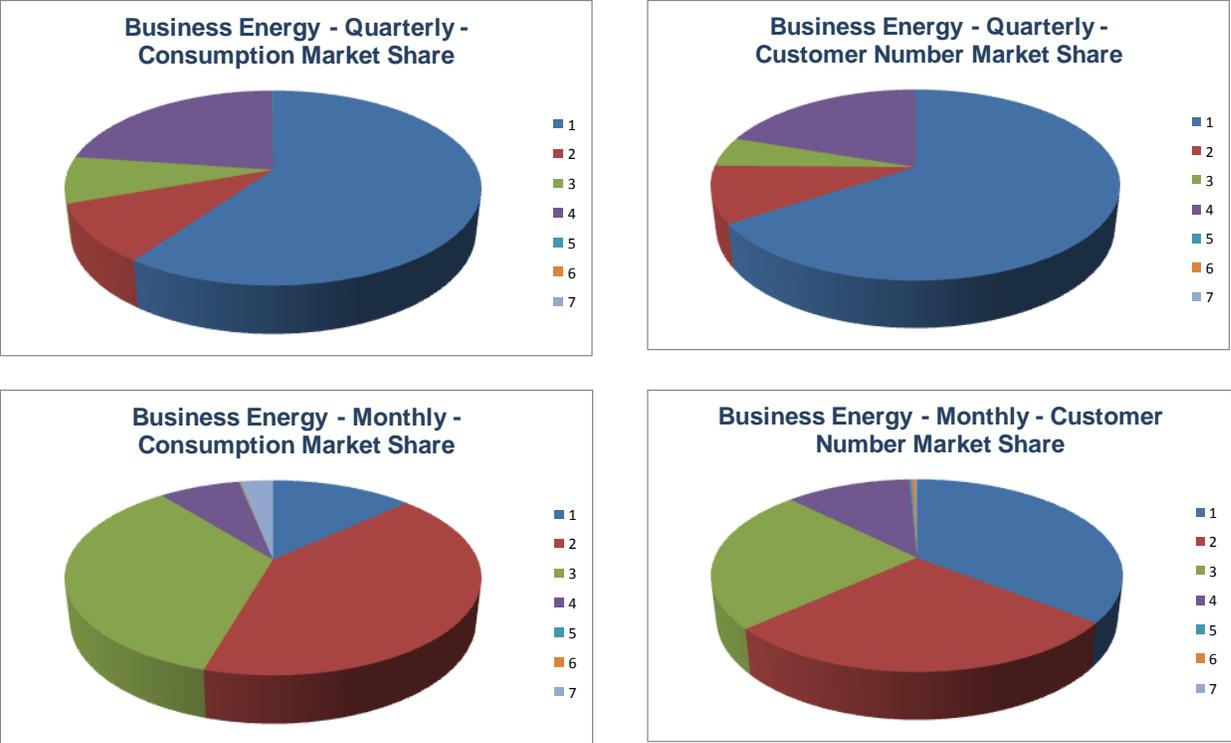
**Figure 17** Evolution in Northern Ireland electricity market shares (suppliers anonymised).



Source: NIE T&D

Recent data for market shares in the I&C sectors is presented below (anonymised for suppliers).

**Figure 18** Electricity market shares in Sep 08 to Aug 09.



Source: NIE T&D

Finally, the table below shows the more detailed split of market shares (by all active suppliers anonymised) in terms of both volumes and connections, split according to network charge categories.

UoS Tariff Category	Total Consumption Sept 08 - Aug 09 KWh	Supplier 1	Supplier 2	Supplier 3	Supplier 4	Supplier 5	Supplier 6	Supplier 7
T041, T042, T043 Off Peak	23,790,550	18,369,509	659,280	93,042	4,668,720	-	-	-
T031 Commercial UNR	673,254,748	354,300,902	93,027,986	3,399,776	222,526,084	-	-	-
T035 <70kVA HH	142,412,436	13,418,155	25,451,957	87,022,050	15,765,387	624,277	125,491	5,120
T032 Commercial E7	37,584,995	25,160,817	351,062	1,976,911	10,096,204	-	-	-
T034 Commercial E7 & Heating	124,971,787	100,636,845	997,077	2,840,567	20,497,299	-	-	-
T033 Com Evening & Weekend	149,214,509	131,989,964	1,062,772	16,853	16,144,921	-	-	-
T101 < 1 MW MV HH STOD	1,579,098,438	420,709,025	548,688,925	497,168,374	105,965,757	2,973,977	2,325,256	1,267,125
T201 < 1 MW HV HH STOD	547,531,852	23,300,282	344,517,267	156,572,174	21,018,230	-	1,510,060	613,838
T102 > 1 MW MV Min HH STOD	3,805,499	-	-	3,805,499	-	-	-	-
T103 > 1 MW MV Med HH STOD	1,965,727	-	110	1,965,617	-	-	-	-
T202 > 1 MW HV Min HH STOD	314,124,252	3,195,053	154,401,257	56,574,247	99,953,695	-	-	-
T203 > 1 MW HV Med HH STOD	625,620,229	19,642,093	362,745,062	202,732,814	40,500,260	-	-	-
T301 < 1 MW EHV HH STOD	3,109,537	7,500	-	3,102,037	-	-	-	-
T302 > 1 MW EHV Min HH STOD	178,794,638	7,719	804,813	90,384,951	-	-	-	87,597,154
T303 > 1 MW EHV Med HH STOD	309,009,235	290,297	62,599,982	228,131,161	128,255	-	-	17,859,540
T401 Transmission Connected	47,135,211	45,811,671	-	1,323,540	-	-	-	-
T503 Gen >70 kVA MV	-	-	-	-	-	-	-	-
T504 Gen <70 kVA HV	43,552	174	-	26,473	-	-	-	16,905
T505 Gen >70 kVA HV	-	-	-	-	-	-	-	-
T506 Gen <70 kVA EHV	399,946	355,189	12,157	10,607	-	-	-	21,994
T507 Gen >70 kVA EHV	502,194	151,716	61,577	-	112,025	-	-	176,875
<b>Total (competition)</b>	<b>4,738,578,785</b>	<b>1,138,977,401</b>	<b>1,594,722,004</b>	<b>1,337,053,651</b>	<b>552,708,117</b>	<b>3,598,253</b>	<b>3,960,807</b>	<b>107,558,551</b>

UoS categories in which NIEES is supplying all customers	Consumption Sept 08 - Aug 09 KWh
T011 Domestic UNR	2,022,762,850
T050, T051, T053 Keypad UNR	781,305,062
T012, T014, T015 Domestic E7	249,514,874
T052, T054 E7 Keypad	104,142,796
T021 Combined Premises	150,766,975
T022, T024, T025 Combined E7	100,666,601
T710 & T711 Total UMS	130,425,946
T502 Gen <70 kVA MV	385,815
<b>Total (monopoly)</b>	<b>3,539,970,919</b>
<b>Total (competition + monopoly)</b>	<b>8,278,549,703.48</b>

	Total Consumption Sept 08 - Aug 09 KWh	Supplier 1	Supplier 2	Supplier 3	Supplier 4	Supplier 5	Supplier 6	Supplier 7
Business Energy - quarterly	448,228,604	45,356,035	172,629,162	112,931,580	119,435,725	-	1,510,060	613,838
Business Energy - monthly	11,569,951,440	1,139,484,480	1,594,795,737	1,337,090,731	552,820,143	3,598,253	3,960,807	107,774,325

**NB** Please note that T041, T042, T043 are also included in T011 or T031 so for purposes of comparison the numbers contained within this category have to ensure there is no double counting

UoS Tariff Category	Total Customer Connections Aug 09	Supplier 1	Supplier 2	Supplier 3	Supplier 4	Supplier 5	Supplier 6	Supplier 7
T041, T042, T043 Off Peak	5,459	5,310	32	2	115	-	-	-
T031 Commercial UNR	38,851	26,965	3,891	115	7,880	-	-	-
T035 <70kVA HH	3,481	697	294	2,157	327	2	4	-
T032 Commercial E7	1,703	1,334	66	44	259	-	-	-
T034 Commercial E7 & Heating	4,614	3,799	173	65	577	-	-	-
T033 Com Evening & Weekend	4,113	3,579	146	-	388	-	-	-
T101 < 1 MW MV HH STOD	4,701	1,777	1,201	1,122	572	12	16	1
T201 < 1 MW HV HH STOD	232	17	133	65	15	-	1	1
T102 > 1 MW MV Min HH STOD	1	-	-	1	-	-	-	-
T103 > 1 MW MV Med HH STOD	2	-	-	2	-	-	-	-
T202 > 1 MW HV Min HH STOD	29	3	12	7	7	-	-	-
T203 > 1 MW HV Med HH STOD	116	5	65	37	9	-	-	-
T301 < 1 MW EHV HH STOD	2	-	-	2	-	-	-	-
T302 > 1 MW EHV Min HH STOD	3	-	1	1	-	-	-	1
T303 > 1 MW EHV Med HH STOD	13	-	3	8	1	-	-	1
T401 Transmission Connected	-	-	-	-	-	-	-	-
T503 Gen >70 kVA MV	-	-	-	-	-	-	-	-
T504 Gen <70 kVA HV	3	1	-	1	-	-	-	1
T505 Gen >70 kVA HV	-	-	-	-	-	-	-	-
T506 Gen <70 kVA EHV	18	14	2	1	-	-	-	1
T507 Gen >70 kVA EHV	8	3	1	-	2	-	-	2
<b>Total (competition)</b>	<b>57,890</b>	<b>38,194</b>	<b>5,988</b>	<b>3,628</b>	<b>10,037</b>	<b>14</b>	<b>21</b>	<b>8</b>

UoS categories in which NIEES is supplying all customers	Customer Connections Aug 09
T011 Domestic UNR	493,058
T050, T051, T053 Keypad UNR	215,751
T012, T014, T015 Domestic E7	24,674
T052, T054 E7 Keypad	16,172
T021 Combined Premises	2,457
T022, T024, T025 Combined E7	3,135
T710 & T711 Total UMS	-
T502 Gen <70 kVA MV	15
<b>Total (monopoly)</b>	<b>755,262</b>
<b>Total (competition + monopoly)</b>	<b>813,152.00</b>

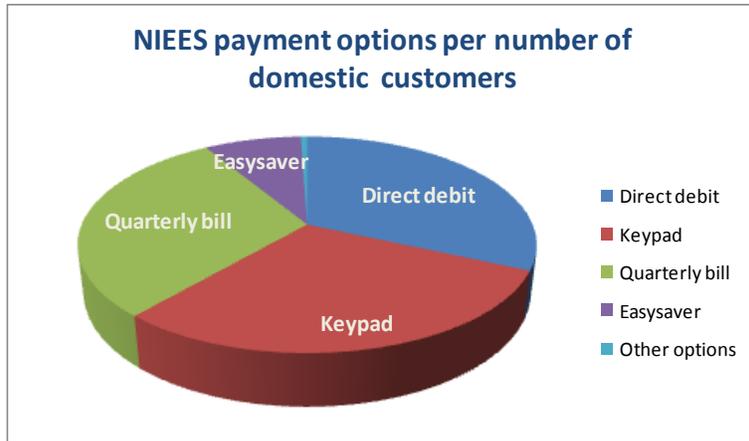
	Total Customer Connections Aug 09	Supplier 1	Supplier 2	Supplier 3	Supplier 4	Supplier 5	Supplier 6	Supplier 7
Business Energy - Quarterly - Customer Number Market Share	82	9	56	16	1	-	1	1
Business Energy - Monthly - Customer Number Market Share	1,543,769	38,212	5,991	3,630	10,039	14	21	12

Source: NIE T&D

**(iv) Methods of Payment**

In Northern Ireland prepayment meters are chosen by many domestic customers in preference to credit meters for other reasons than dealing with debt problems, and the market penetration is correspondingly higher than in other jurisdictions, at around 30%. The different ways of paying for electricity in the domestic sector are shown in the following graph.

**Figure 19** NIEES domestic payments



Source: NIEES

**2.2. Retail gas parameters**

**(i) Customer numbers**

The following table illustrates the number of gas customers (other than the power plants) across the Northern Ireland gas market including both Phoenix and firmus distribution licences areas – in 2008 by sectors and supplier.

**Table 5 Connected** Gas customers in Northern Ireland (2008)

Number of gas customers in 2008 <sup>12</sup>	Domestic customers	I&C customers
Phoenix Supply Ltd	115,000	8,000
firmus	3800	400
<b>TOTAL</b>	<b>118,800</b>	<b>8,403</b>

Source: the Regulator and suppliers.

<sup>12</sup> Energia has a very small fraction of the I&C market.

The gas network in Northern Ireland is continuing to be extended. firmus Energy is in the process (since 2005) of developing gas networks and supply in the main urban areas outside of the Greater Belfast area, which is licenced to Phoenix Natural Gas.

As regards the Phoenix Greater Belfast area, at the end of 2008, Phoenix Natural Gas (PNG) had 2,940km of network in operation, making gas available to 266,252 premises in its Licensed Area, with a total of 122,555 (46%) already connected.<sup>13</sup> The ratio of actual connections to properties with gas availability is higher in the I&C sector compared to the domestic sector. In PNG’s Licensed Area virtually all of the identified largest industrial and commercial businesses that have access to gas have connected.

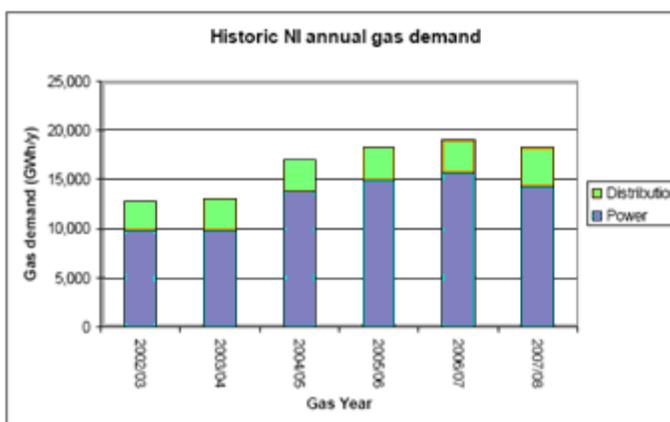
In future editions of the Energy Retail Report we would like to collect and present information on connections, following the template table below.

<b>Gas connections and properties passed</b>	<b>Total number of properties passed</b>	<b>Domestic connections</b>	<b>I&amp;C connections</b>
firmus distribution area			
Phoenix distribution area			
Total NI			

**(ii) Demand/consumption**

The total Northern Ireland gas demand is presented per annum from 2002-03 to 2008-09 in the following graph. Volumes categorised as “Distribution” relate to the total demand in the Phoenix and firmus distribution networks, plus the demand from the distribution network in Stranraer (the Stranraer network is included as its load is provided by SNIP). “Power” volumes are those demanded by the Ballylumford and Coolkeeragh power stations.

**Figure 20** Northern Ireland gas demand



Source: Joint Capacity Statement 2009.

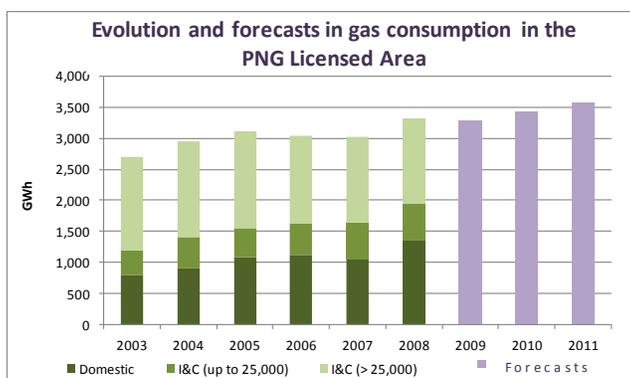
<sup>13</sup> Kellen Group Annual Report and Accounts 2008.

Annual demand in Northern Ireland has grown by around 44% over the period 2002/2003 to 2007/2008 (or 7.5% per annum):

- From 2002/2003 to 2007/2008 the power sector grew by 7.6% per annum, as a result of the commissioning of one new CCGT at Coolkeeragh and the displacement of 600MW of open cycle generation with a 600MW CCGT at Ballylumford; *and*
- The distribution sector grew by 7.2% per annum from 2002/2003 to 2007/2008 with the expansion of the Phoenix distribution network and the firmus distribution network.

In the Phoenix Natural Gas Licensed Area which includes Greater Belfast and Larne there are three active gas suppliers, Phoenix Supply Limited (PSL), firmus Energy and Energia. In 2008 Phoenix Supply supplied over 99% of customers within the Phoenix Licensed Area<sup>14</sup>. Within Phoenix’s area there was a fall in gas consumption in the sectors below between 2005 and 2008. Recent figures and forecasts indicate a return to a growth trend. The following graph demonstrates recent patterns of gas consumption – in absolute figures and percentages – and the forecast for future years. .

**Figure 21** Evolution and forecasts of gas consumption in the Phoenix Licensed Area

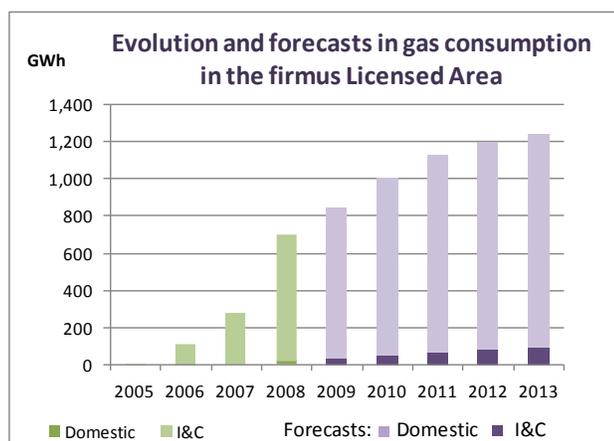


Source: PNG

firmus started to supply natural gas in the firmus distribution Licensed Area (10 large towns outside of the Phoenix licenced area) in 2005, increasing significantly their sales in the following years mainly in the I&C sector (see figure below). In 2009 firmus also started to supply gas in the Greater Belfast area.

<sup>14</sup> Kellen Group. Annual Report and Accounts 2008.

**Figure 22** Forecasts of gas consumption in the firmus Licensed Area



Source: firmus.

### (iii) Market shares/switching

Firmus distribution Licensed area is not currently open to competition hence firmus Energy has 100% market share, in terms of both volumes and customer numbers, in all customer categories. Future editions of this report will monitor both firmus and Phoenix gas distribution areas to track customer transfer information and market shares.

In the Phoenix distribution Licensed area in 2008 Phoenix Supply maintained almost universal supply of domestic customers and very substantial share of I&C customers. In 2008 Phoenix Supply supplied over 99% of customers within the Phoenix distribution Licensed Area. In gas usage terms, we estimate that Phoenix supplied around 97% of the market in the Phoenix distribution licenced area. For completeness, the table below estimates market shares (by gas consumption) in the Phoenix and firmus licenced areas respectively.

**Table 6** Gas consumption (GWh) and market shares in each of the two Licensed distribution areas

	Consumption in Phoenix's Licensed area (GWh)	%		Consumption in firmus's Licensed area (GWh)	%
Phoenix Supply Ltd	3,307	97	firmus	706	100
Other suppliers	107	3	Other suppliers	0	0
<b>TOTAL</b>	<b>3,414</b>	<b>100</b>	<b>TOTAL</b>	<b>706</b>	<b>100</b>

Source: own and suppliers information

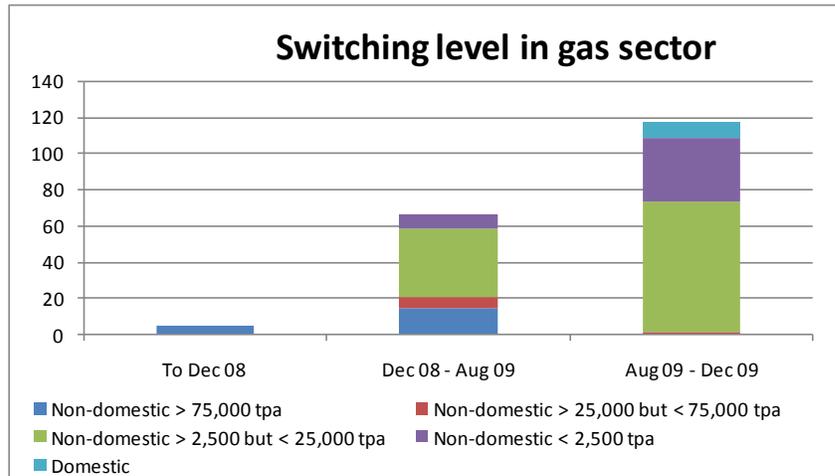
In relation to the second annual Energy Retail Report we would wish to collect more data in this area. We will welcome stakeholders' views on what data they would find useful. For example, we are considering information such as in the template table below which we would like to collect annually to achieve a time series as we go forward. The table below attempts to collect customer numbers and volume information for domestic and I&C customers in each of the two distribution areas.

<b>Phoenix's distribution Licensed Area</b>						
Year	Suppliers	Phoenix Supply Ltd		Other Suppliers		Total
		Absolute	%	Absolute	%	
Customer numbers	Domestic (prepayment)					
	Domestic (direct debit)					
	Domestic (quarterly)					
	I&C < 25,000					
	I&C > 25,000					
Volumes	Domestic (prepayment)					
	Domestic (direct debit)					
	Domestic (quarterly)					
	I&C < 25,000					
	I&C > 25,000					

<b>firmus's distribution Licensed Area</b>						
Year	Suppliers	firmus		Other Suppliers		Total
		Absolute	%	Absolute	%	
Customer numbers	Domestic (prepayment)					
	Domestic (direct debit)					
	Domestic (quarterly)					
	I&C < 25,000					
	I&C > 25,000					
Volumes	Domestic (prepayment)					
	Domestic (direct debit)					
	Domestic (quarterly)					
	I&C < 25,000					
	I&C > 25,000					

Finally, the figure below shows switching levels in the gas sectors in the Phoenix distribution Licensed Area since the opening of the market.

**Figure 23** Level of switching in the gas sector (by number of switches).

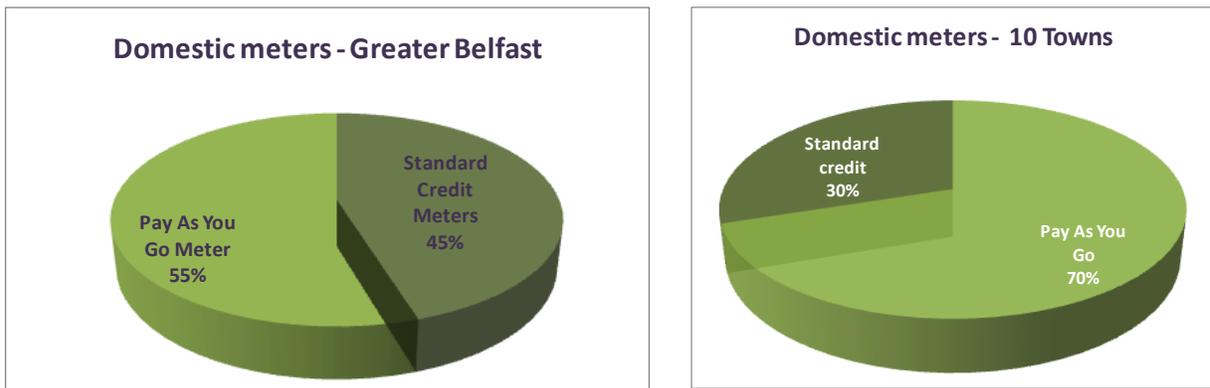


Source: PNG.

**(iv) Methods of Payment**

Since 2005 the installation of Pay As You Go meters has risen from a 32% to 55% share of all meters installed.

**Figure 24** Domestic meters



Source: PNG and firmus<sup>15</sup>.

<sup>15</sup> The terminology on meters has been homogenised for simplicity when comparing type of meters in both areas.

### 3. Prices

#### 3.1. Relationship between wholesale and retail

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

Within the SEM it remains important to ensure competition is not distorted by anti-competitive behaviour or structures. As a result SEM is monitored on a daily basis by the regulators. Since its establishment, the regulators have seen good progress towards improving the competitive structure of the market. More information on the functioning of the SEM can be found here: <http://www.allislandproject.org/en/sem-executive-overview.aspx?article=41798ae6-96da-4543-9ae1-660f1b1e2965>.

Suppliers have a number of different strategies related to buying electricity in the wholesale market. These include hedging, which is buying of wholesale gas and electricity ahead of physical delivery, so suppliers can buy gas or electricity months in advance. As a result, this can be linked to the reasons why they cannot pass on increasing or decreasing costs immediately to customers. Moreover, suppliers incur costs when changing prices, that might prevent the retail price from reflecting at a given moment of time the wholesale cost faced by the supplier.

#### 3.2. Make up of domestic bill

##### Electricity

While the electricity market has been fully open to supply competition since November 2007, in practice, for some classes of customers (particularly domestic consumers) NIEES does not face effective competition from other suppliers. We therefore take an active role in scrutinising and approving NIEES's retail tariffs which are the final prices customers pay.

Electricity retail tariffs are made up of a number of components that are subjected to regulatory scrutiny<sup>16</sup>:

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<sup>16</sup> NIE Energy Supply's 1 October 2009 Tariff Decrease; A Regulatory Briefing: [http://www.niaur.gov.uk/uploads/publications/Background\\_Briefing\\_on\\_NIE\\_Energy\\_price\\_decrease\\_Sept\\_2009.pdf](http://www.niaur.gov.uk/uploads/publications/Background_Briefing_on_NIE_Energy_price_decrease_Sept_2009.pdf)

**Table 7** Retail tariff components

<b>ELECTRICITY</b>	<b>Service</b>	<b>Regulatory Instruments/Scrutiny</b>
Generation Costs	Costs of procuring electricity including MO charges, contracting costs, cost of electricity, constraints and capacity charges.	Competitive and regulated wholesale market, approval of NIEES hedging methodology and annual approval of NIEES wholesale costs by the Regulator. SEMO Revenue & Tariffs 2009-10.
SSS Charges	For system planning, operation and dispatch (SONI).	SONI Price Control 2007-10.
PSO Levy	Public Service Obligation costs which must be spread across all customers.	NIE Energy (PPB) Price control 2009-2012 and annual approval of other costs.
Use of System charges	Costs of transmission and distribution of electricity across the wires network.	T&D Price Control 2007-2012.
Supplier Charge	Charge to supply electricity to customers e.g. meter reading, billing.	NIEES Supply Price Control 2009-2010.
NIRO Costs	Net costs of Northern Ireland Renewable Obligation, related to government obligation on suppliers to sell a proportion of their output as renewables.	Audited on behalf of the Utility Regulator 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 NIEES.	This is determined by the Regulator as part of price control. Includes working capital costs.

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

The remaining components of tariffs, because of the low level of competition in the market, are all subject to regulatory scrutiny.

## Gas

In the gas sector, the components of the tariff differ from those in the electricity sector. For a detailed overview readers can refer to a recent presentation delivered by the Regulator, available at: [http://www.niaur.gov.uk/uploads/publications/Energy\\_Tariffs\\_Briefing\\_260809.pdf](http://www.niaur.gov.uk/uploads/publications/Energy_Tariffs_Briefing_260809.pdf)

The components of the gas supply tariff for PSL are set out in the following table. The explanatory text on the firmus supply tariff is outlined following the table.

**Table 8** Gas tariff components

GAS	Service	Regulatory Instruments/Scrutiny
Gas Costs	This is the cost of the gas bought in GB, and is the most volatile component.	This is a pass through cost and is reviewed at every tariff review by the Regulator.
Transmission charges	Charges for transporting gas through the Northern Ireland transmission system.	Tariffs approved by regulator and published every July. <sup>17</sup>
Distribution charges	Charges for using smaller pipeline network in the Greater Belfast and Larne area.	Tariffs approved by regulator and published every September. Tariffs are based on the regulatory determination in the distribution price control.
Supply Costs	This is the operational cost of running PSL's business.	Costs are approved and published by the Utility Regulator.
Correction Factor	As gas costs are forecast and fixed in advance, actual costs may differ from forecast and the difference is then included in the tariff. This can be positive or negative.	Analysis of variances between forecasts used for setting tariffs and out-turn costs.
Margin	Allowed profit margin for PSL.	This is determined by the Regulator as part of price control.

In 2007 we decided to price control PSL due to its market dominance in the Greater Belfast area and Larne areas. The price control only applies to the domestic sector and to I&C customers who consume less than 25,000 therms per annum.

<sup>17</sup> The transmission tariffs are published on the websites of BGE(UK) and PTL/BGTL. For BGE(UK) see <http://gasmap.ie/networks/index.jsp?1nID=102&2nID=109&pID=311&nID=319> and for PTL/BGTL see <http://www.premier-transmission.com/>

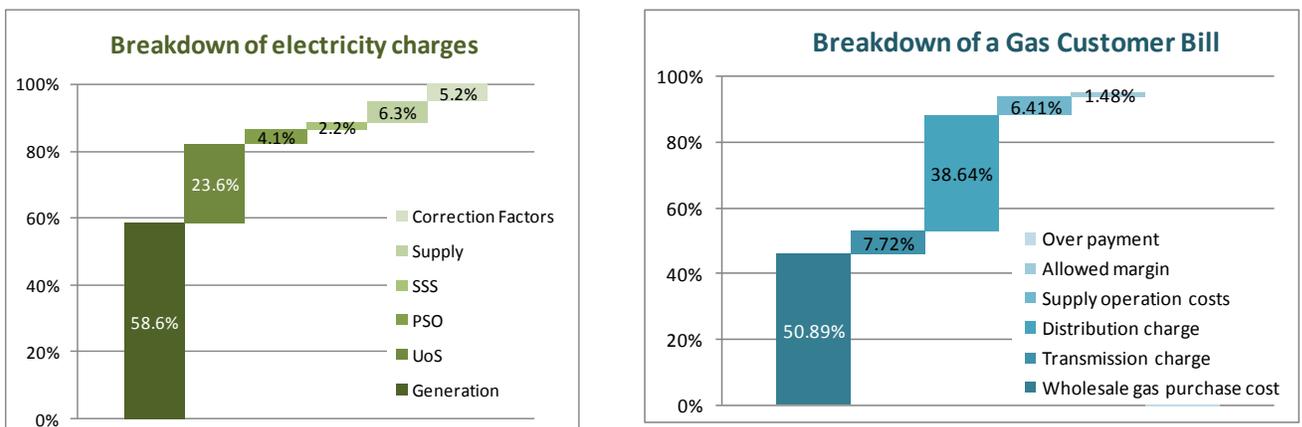
A price control does not exist for the firmus supply tariff, for the following reasons:

- o firmus Energy is still in the early stages of its development. With around 4,000 customers at the end of 2008, firmus is very much focused on growing their business and attracting as many new customers as possible. A necessary requirement to achieving this is to price as competitively as possible against alternative fuels (e.g. home heating oil, fuel gas). A price control on the supply tariff is not deemed necessary at this stage.
- o firmus Energy is incentivised through the distribution price control to maximise volume throughput over the control period. To achieve this firmus must price competitively in order to win new customers and increase the demand for gas flowing through its distribution network. .

### Make-up of an average domestic customer's bill

The following charts illustrate the percentage components of the supply domestic tariff for electricity and gas<sup>18</sup>:

**Figure 25** Make up of electricity and gas bill (domestic consumers)



Source: The Utility Regulator data

<sup>18</sup> Note the make-up of the gas tariff in this diagram relates only to the PSL tariff.

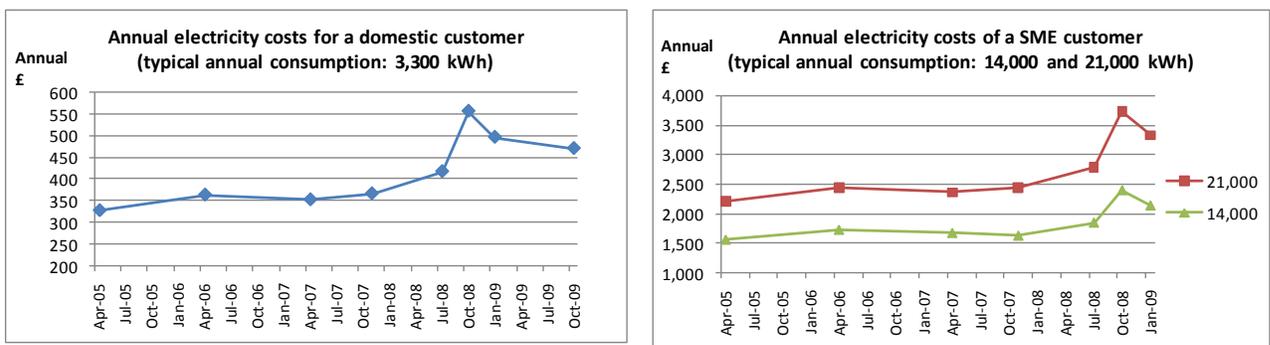
### 3.3. Electricity prices: evolution and comparisons

#### Regulated Electricity Tariffs in Northern Ireland

Domestic and SME regulated tariffs evolution in Northern Ireland are shown in the charts below, reflecting the annual cost for a NIEES electricity consumer with a typical yearly consumption. The Domestic evolution graph includes the new prices applying from October 2009. Readers can find more information on the 2009 tariff decrease on our website:

[http://www.niaur.gov.uk/uploads/publications/Background Briefing on NIE Energy price decrease Sept 2009.pdf](http://www.niaur.gov.uk/uploads/publications/Background%20Briefing%20on%20NIE%20Energy%20price%20decrease%20Sept%202009.pdf).

Figure 26 Price evolution in electricity sector



Source: NIEES. VAT and CCL have been excluded. Standard credit terms apply.

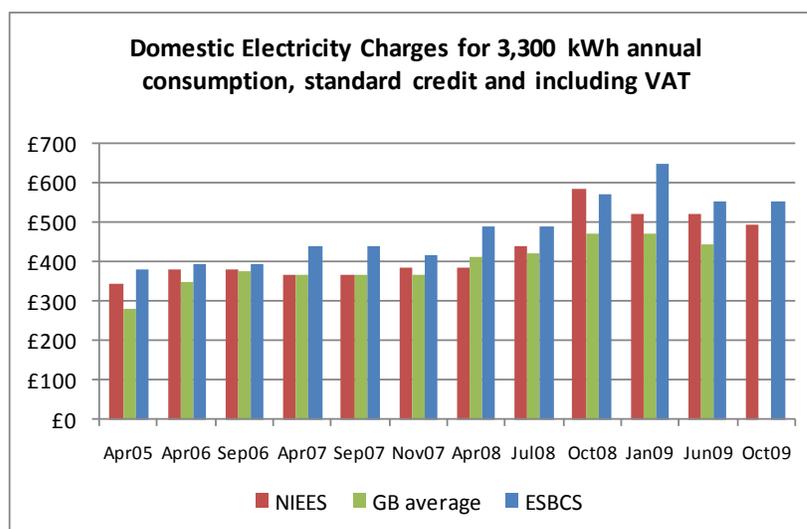
#### Price comparison with Rol and GB

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

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

The chart below shows the evolution in domestic electricity prices for an annual consumption of 3,300 kWh, including the prices applying in Northern Ireland and Rol from 1<sup>st</sup> October 2009.

**Figure 27** Electricity price comparison with RoI and GB



Source: NIEES

The October 2009 NIEES tariffs compare favourably to the ESB tariffs, being on average 12.9% lower. The table below compares the previous tariff announcement in January and the current announcement to the equivalent ESB urban and rural charges. NIEES are on average lower than the comparable ESB tariffs. Domestic Electricity costs are based on average annual customer usage of 3,300kWh (including VAT and using a euro exchange rate of 1.16).

**Table 9** Electricity previous tariff announcements

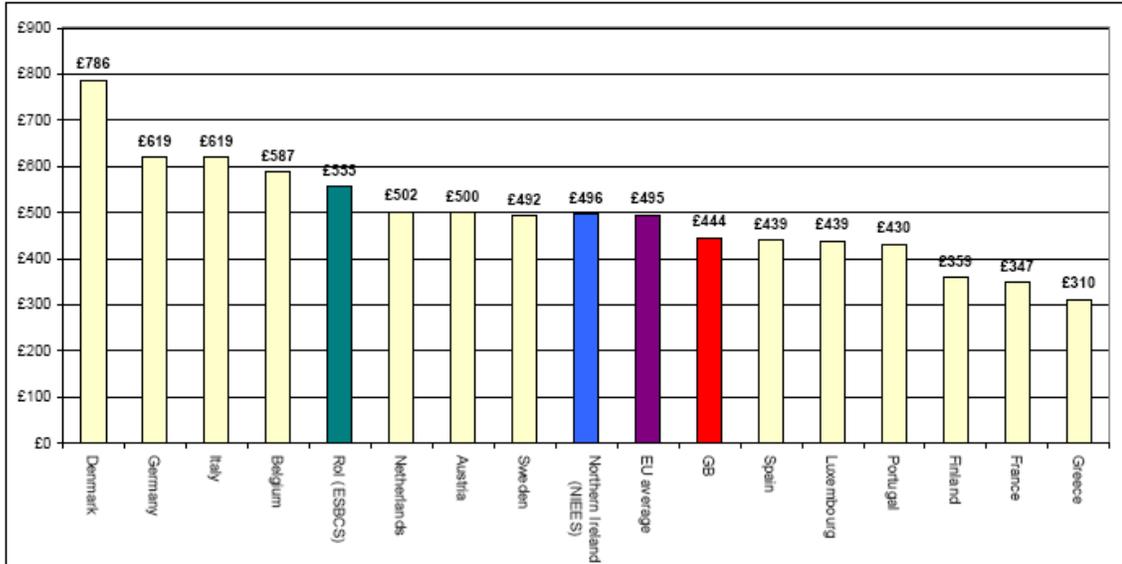
	January 2009	Higher than NIE £	Higher than NIE %	October 2009	Higher than NIE £	Higher than NIE %
<b>NIEES</b>	<b>£522</b>			<b>£496</b>		
ESB – urban	£597	£75	14.4%	£545	£49	9.9%
ESB – rural	£627	£105	20.1%	£575	£79	15.9%

Source: The Utility Regulator 2009 Tariff decrease regulatory briefing.

### Price comparison at EU level

The following graph reflects domestic price comparisons including VAT between NI, RoI, GB and different European countries. Prices for Northern Ireland and RoI are those set up for October 2009, while the GB price is the one relevant to September 2009. European prices are the average of the second semester of 2008 prices for the medium annual consumption band 2,500kWh to 5,000kWh.

**Figure 28** NIEES tariffs per average customer compared to RoI, GB and EU.



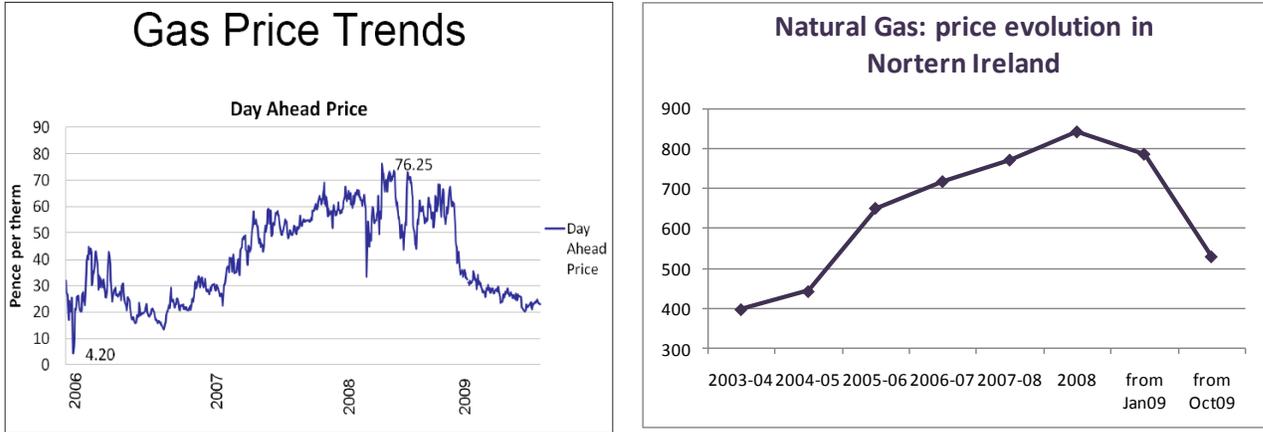
Source: NIEES and Eurostat.

### 3.4. Gas prices: evolution and comparisons

#### Domestic and Small I&C Tariffs in Northern Ireland

The Phoenix Supply tariff review normally runs for a 12 month period from 1 April each year. On 10<sup>th</sup> September 2009 Phoenix Supply confirmed a 19.0% reduction in its tariffs and these lower rates applied from 1<sup>st</sup> October 2009. We brought forward the April tariff review to January when a 22.1% decrease was announced. This allowed customers to benefit from falling wholesale gas prices during the winter when it would be of most benefit. The following graph illustrates recent trends in the wholesale market price of gas, alongside the average annual gas bill for PSL customers from 2003 to early 2009 (i.e. before the most recent decrease announced by PSL in September 2009).

**Figure 29** Evolution of the wholesale market price of gas and of the average annual gas bill for PSL customers



Source: The Utility Regulator.

### Gas Price comparison with Rol and GB

Historically prices in Northern Ireland have tended to be higher than in GB, for a variety of reasons. The main causes of the differential in price between Northern Ireland and other parts of the UK are as follows. Northern Ireland has no indigenous supply of natural gas and is totally reliant on imports from the UK mainland grid. There is extra costs associated with bringing gas through the SNIP, coupled with the facts that (1) NI's gas infrastructure is relatively new and none of the assets have yet been "paid off" and (2) the gas market is still maturing.

The table below compares the average annual bill for a PSL customer (after the proposed reduction) with other GB and Rol gas suppliers. It is clearly evident that the historical tendency for prices to be higher in Northern Ireland is not the case at the moment, for example with PSL offers the lowest cost for a standard credit customer's usage of 15,000 kWh.

**Table 10** Average annual bill for a gas customer

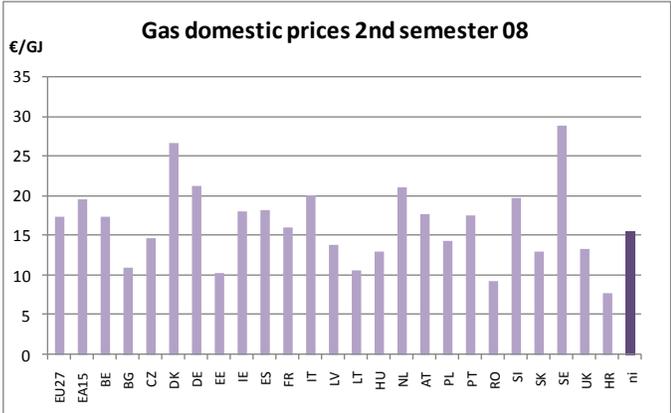
Supplier	Standard Credit Customer 15,000 kWh usage
Phoenix Supply Limited	£530 from October 2009
Bord Gais (Rol)	£697 from October 2009
Scottish Power (GB)	£692
British Gas (GB)	£681
Npower (GB)	£640
E.On (GB)	£613
EDF Energy (GB)	£611
SSE (GB)	£600

Source: The Utility Regulator's Phoenix Supply Limited Price Announcement Q and As. Table correct at September 09.

**Price comparison at EU level**

The following graph compares gas prices across Europe for the 2<sup>nd</sup> semester 2008.

**Figure 30** Gas price comparison at EU level



Source: Eurostat "Data in focus" 26/2009 and the Utility Regulator.

## PART THREE: KEY FUTURE WORK AREAS

### 4. The future of our approach to competitive retail energy markets

Recent wholesale market reforms, in particular the launch of the Single Electricity Market, have created a sounder platform for energy retail competition. This has led to growing interest from new suppliers in market entry. Market development has also highlighted the importance for wholesale competition of a de-concentrated and competitive retail sector. In light of this, we decided that the time was right for a refreshed regulatory focus on boosting choice of supplier for energy-users.

The benefits of competition could emerge in the following three areas:

- downward pressure on costs,
- increased standards of service, and
- increased amount of innovation.

Prices have historically been the main factor linked to the development of competition. However, customers' views are progressively more orientated towards non-price factors.

To cover the wide spectrum of the retail sector necessities, we are mainly focusing our retail resources in the following fronts.

#### 4.1. Roadmap work

Several of the main areas of work carried out by the Utility Regulator within the retail umbrella are being considered together in autumn 2009 in what we call the 'Roadmap Work'. In this framework, responses to the several retail consultation papers issued earlier in the year will be examined and decisions will be made in terms of defining the retail work programme for the next financial year. The policy goal remains to inject effective competition into the energy supply areas of the current regulated markets. In doing so, this will help the move towards the removal of price controls at the appropriate future stage. However, this would be implemented in a way that considered the interests of all consumers, including non-switchers. The most likely outcome is progressive deregulation, only when we are assured that competitive forces are sufficiently dynamic to protect customers. How we will monitor and implement this will be established via our Roadmap work.

#### K factors and supply margins

A number of concerns had been raised (by other suppliers) over the continued use of k-factors in the price/revenue restrictions for ESB Customer Supply in the RoI and NIE Energy Supply. It has been suggested that k-factors serve to hinder competition developing in supply.

There are several arguments against K factors. The principal one being that the existence of the K Factor for the two incumbent suppliers distorts the market, as any over/under recovery on the part of the incumbent is folded into the subsequent yearly tariff. As a result the tariff in any given year may not reflect the true cost of supplying energy to a customer. As the independent suppliers are price followers (they offer customers a % discount off the incumbent tariff in most

cases) this volatility creates uncertainty and they may be in a position of over recovering or under recovering in any year. However, unlike the incumbent, if they under recover in a year they are not guaranteed to get that loss back.

The main argument for K factors is that they allow the PES to set retail tariffs annually and pick up any differences between forecast and actual costs the subsequent year and as a result customer tariffs change only once a year (in normal circumstances).

Also the PES argue that due to the legacy arrangement whereby they cannot own generation (this is still true of ESB but since SONI divestment no longer the case for NIE Energy) they are at a distinct disadvantage to those independent suppliers who are vertically integrated. They point to the lack of liquidity in the contract market (which can leave them more exposed to pool price especially in peak periods for which contracts are rarely available). In addition to this, that they must pay a premium for contract cover, which suppliers who have their own generation do not. The existence of the K factor mitigates this risk and hence they do not require a high margin. If the K factor was to be removed it is likely the incumbents would argue for a higher margin to reflect increased risk.

Skyplex Consulting have been working on behalf of the Regulatory Authorities on the subject of K factors and supply margins. A consultation process was launched in June 2009 welcoming views on the three following proposals, and asking whether any alternative proposals should be considered:

- The first proposal is for minimum change to the current system whereby K factors are retained with some enhancements, specifically in terms of transparency, to the existing arrangements.
- The second proposal is for the introduction of asymmetric K factors, where over- recoveries are repaid with a premium and under-recoveries are not fully recovered.
- The third proposal is the removal of K factors and put in place a maximum revenue restraint determined ex-post.

Following the consultation period, which ended in September this year, Skyplex Consulting have been assessing the responses and preparing a paper recommending policy options and actions for the Regulatory Authorities (RAs) to pursue. The RAs will consider this in the wider context of their Roadmap development.

The consultation paper can be found here:

[http://www.niaur.gov.uk/news/view/utility\\_regulator\\_and\\_cer\\_publish\\_retail\\_competition\\_consultation\\_papers/](http://www.niaur.gov.uk/news/view/utility_regulator_and_cer_publish_retail_competition_consultation_papers/)

### **Review of Retail Tariff Structures**

Poyry, working on behalf of the Regulator and CER, have been considering retail tariff structure issues. This analysis included comparing and contrasting the different customer classes identified in each jurisdiction and the structure of the tariffs used, with comments on features found in tariff structures in each jurisdiction.

Poyry have provided a consultation document containing their views and proposals for harmonising the approaches in both jurisdictions. The purpose of this being the creation of consistency and promoting competition through providing choice for customers.

The Poyry Report sets out the proposals in three main categories (12 detailed proposals in total):

**Group A - All Island Market Structure Proposals:**

- Improve CfD liquidity to provide a more liquid hedging contracts market.
- Introduce system of global aggregation to create a more transparent settlement arrangement for suppliers with regard to distribution loss factors.
- Align metering codes of practice through creating a common metering Code of Practice.

**Group B – All Island Regulatory Proposals:**

- Create common programme of Profile Load Research.
- Create additional SME profiles to more effectively cater for the varying demand profiles of SME customers.
- Adopt a single model for network charging methodologies which would employ geographic cost signals.

**Group C – PES Regulatory Proposals:**

- Separation of network and wholesale energy costs.
- Use a common Cost to Supply (CTS) model to determine supply cost allocation.
- Enable contract term and indexation to allow for contractual terms between supplier and customer to reflect movements in wholesale prices.
- Employ Time of use tariffs through using a price signal to customer to encourage efficiency.
- Common Northern Ireland & RoI Tariff Methodology Statements to encourage transparency.
- Reduce the need for k-factors in the PES tariff energy component.

Following the consultation period, which ended in September 2009, Poyry are assessing the responses to the consultation and preparing a decision paper recommending policy options and actions for the Regulatory Authorities to pursue. The RAs will consider this in the wider context of their Roadmap development.

The Poyry consultation can be found here:

[http://www.niaur.gov.uk/news/view/utility\\_regulator\\_and\\_cer\\_publish\\_retail\\_competition\\_consultation\\_papers/](http://www.niaur.gov.uk/news/view/utility_regulator_and_cer_publish_retail_competition_consultation_papers/)

#### **4.2. Customer views on competition**

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

EU law is explicit about the central role of competition to deliver consumer benefits. Directive 2003/54/EC (the 2nd Internal Market Directive for Electricity) requires Member States to achieve a “competitive, secure and environmentally sustainable market” and to “ensure that the eligible customer [which now includes all households] is in fact able to switch to a new supplier.” Directive 2003/55/EC contains equivalent provisions for gas. The 3rd Internal Energy Market package, published by the European Parliament on 14th August 2009, puts an even greater emphasis on the retail market and customers.

In this context we are working with CER<sup>19</sup> to develop retail competition on an all island basis and have recently gone out to the market to engage consultants to conduct market research on residential and business (SME & LEU) consumer attitudes and experiences of the electricity market across the island in both retail markets north and south. This will be an all island survey which will help inform both Regulatory Authorities and shape future activity accordingly.

### 4.3. Customer switching and retail harmonisation

#### Electricity switching capabilities

In August 2009 the Regulator approved and agreed an NIE submission that outlined the Interim Market Arrangements in relation to customer switching and indicated the rate of domestic customer switches and ceiling that are possible under the current system. It has been agreed that the system and support arrangements are capable of dealing with 6,000 changes of supplier per month. This assumes that no more than 10% of the customers switching are keypad customers.

To find out more about this issue, please visit our website:

[http://www.niaur.gov.uk/news/view/utility\\_regulator\\_publishes\\_interim\\_market\\_arrangements/](http://www.niaur.gov.uk/news/view/utility_regulator_publishes_interim_market_arrangements/).

We are currently working with CER, the network companies North and South and suppliers to assess the optimal way forward in relation to harmonising retail processes, notably in relation to market messaging.

#### Common Arrangements for Gas (CAG) Project

As part of the European Union, Northern Ireland (NI) and the Republic of Ireland (RoI) are committed to the development of a Single European Gas Market, which is designed to bring benefits to all European citizens and to contribute to Europe's competitiveness.

Within this framework, cross border trading is developing and the interconnectivity of gas networks is increasing. Countries that are physically close are developing closer trading ties. In this environment the island of Ireland faces a unique challenge and a unique opportunity. On the one hand the island is far less interconnected than other mainland European jurisdictions but on the other, we have the opportunity to create common arrangements within the island, realising the benefits of this move for all consumers of gas and for the economies north and south.

Furthermore, in the future it may be possible to align gas arrangements in both jurisdictions with that of Great Britain and the implementation of CAG will make this more feasible.

A Memorandum of Understanding (MoU) between the two Regulators was published on 7th April 2008 on the development of the Common Arrangements in Gas (CAG) project, under the All Island Energy Market Development Framework. The CAG has as a main objective that all stakeholders can buy, sell, transport, operate, develop and plan the natural gas market north and south of the border effectively on an all-island basis. In this context, variations in the price and conditions on which gas is bought and sold will be determined by market conditions and economics, not by variations in regulatory arrangements.

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<sup>19</sup> The Commission for Energy Regulation (CER) is the independent body responsible for overseeing the liberalisation of Ireland's energy sector. [www.cer.ie](http://www.cer.ie)

## **Gas – Switching and retail interfaces**

The first step in the CAG retail project was to commission a study to assess the IT options for retail market alignment. It is anticipated that the outcome of the study will provide a view of the existing retail IT systems and interfaces used by the suppliers, the options for integration and/or standardisation and the timelines and dependencies.

## **Gas – Security of Supply**

In December 2008, the Regulator and CER published a Consultation Paper on Security of Supply arrangements in Ireland and Northern Ireland under the Common Arrangements for Gas (CAG) project<sup>1</sup>. The Consultation Paper set out the current security of supply standards in Ireland and Northern Ireland and discussed areas of potential harmonisation across both jurisdictions through CAG. The consultation paper required general comments and responses to a number of questions relating to three specific areas: network security of supply standards, obligations on shippers and suppliers and gas storage.

After receiving and assessing the correspondent responses, we have published, in September 2009, a Conclusions Paper on Security of Supply. In reaching those conclusions, the Regulatory Authorities (RAs) have paid particular attention to relevant national and EU legislative requirements relating to security of gas supply, as they believe that these decisions will ensure that greater harmonisation between the two jurisdictions is progressed whilst operating within the intentions of the relevant legislation. In this regard, the RAs are particularly mindful that the advancement of security of gas supply on the island is not an isolated, short-term measure but an ongoing process and an integral aspect of the CAG project which will require continuing input from all stakeholders. The RAs are also conscious that requirements must not jeopardise the proper functioning of the market and should not unduly raise costs for market participants and final customers.

The conclusions paper can be found here:

[http://www.niaur.gov.uk/uploads/publications/CAG\\_Sept09\\_Common\\_Arrangements\\_for\\_Gas -  
Conclusions Paper on SoS - Final.pdf](http://www.niaur.gov.uk/uploads/publications/CAG_Sept09_Common_Arrangements_for_Gas_-_Conclusions_Paper_on_SoS_-_Final.pdf)

## **Gas storage**

There are no storage facilities in Northern Ireland, although there is significant industry interest in developing gas storage facilities in underground caverns in salt layers within the Larne area.

To provide a clearer position to the industry, a paper on potential regulatory frameworks for gas storage in Northern Ireland was issued for consultation in July 2009. The paper provides an insight into the key principles that we and DETI would take into account when judging an application for a gas storage licence. The key principles discussed are: third party access (TPA) regimes, exemptions to access and licence conditions.

The consultation paper can be found at:

[http://www.niaur.gov.uk/uploads/publications/20090722\\_Gas\\_Storage\\_Framework\\_Consultation  
Paper \(Published\).pdf](http://www.niaur.gov.uk/uploads/publications/20090722_Gas_Storage_Framework_Consultation_Paper_(Published).pdf)

#### 4.4. Affordability tariffs

We have been asked by the Fuel Poverty Taskforce to develop some work investigating the options for the introduction of social electricity tariffs in Northern Ireland.

A main issue when examining options for the implementation of affordability tariffs are the different definitions of 'vulnerable' currently in use, and the targeted social group. This centres on whether the benefits of any social tariff should be directed towards the fuel poor, vulnerable customers or to the vulnerable fuel poor. There is also the key question of how any policy should be resourced.

Some other significant issues to consider are the objectives for a affordability tariffs scheme in Northern Ireland, the amount of support that can or should be delivered and the options for delivering that support.

A preliminary paper on this matter is being drawn up together and will be issued for consultation shortly.

#### 4.5. Going forward with stakeholders

##### **Suppliers Interface Group (SIG)**

SIG was established to deliver retail market opening to all classes of customer by November 2007. Since the market opened it has dealt with day to day operational issues and will be responsible for implementing operational changes relating to the Enduring Solution.

##### **Gas Market Opening Group (GMOG)**

In Northern Ireland the gas market opening process has been driven by the Gas Market Opening Group (GMOG) which is a forum where market participants can meet with the Regulator to address barriers to market opening and then work to remove these impediments. Progress has been made in a number of key areas including the following:

- The necessary processes were put in place to facilitate full gas market opening in the Greater Belfast area from 1st January 2007.
- The completion of the functional, legal and managerial separation of Phoenix with a new supply licence being granted to Phoenix Supply Ltd. in December 2006.
- A non-domestic supplier meter point objection code has been devised.

The future role of GMOG will be to facilitate discussion on issues which the members have identified as barriers to entry with a view to providing a solution to the issues raised (this could take the form of a code modification).

##### **Market Opening Senior Stakeholder Group (MOSSG)**

The of this group is to act as a sounding Board and policy advice forum on strategic/policy level issues that affect retail competition, and on the relevant elements of the new Retail Unit work

programme. The prime focus of MOSSG in the early stage is on competition in electricity supply. However in recognition of cross over issues (i.e. dual fuel) and a desire to also consider gas supply competition development, relevant gas issues will also be covered.

The focus of the group will be largely in relation to Northern Ireland retail markets, but we recognise that industry hopes to see development across an all island retail space. CER participates on the group and part of the agenda for the MOSSG will be to consider those issues which need to be debated in an all-island context.

#### **4.6. Customer protection**

To enable consumers to make good tariff choices, they need accurate information about their own energy consumption and costs. Competition might need to be accompanied by an improvement in the quality of information provided to customers.

We have no plans to reduce obligations on suppliers to read meters, or to introduce meter competition, since these actions may actually reduce the accuracy of information provided to consumers. On the contrary, we might consider whether meters should be read more frequently.

The smart metering agenda is clearly relevant here: giving consumers rich data about their own consumption we would empower them to buy intelligently, as well as to save energy. We will collaborate with DETI in the coming year to assess costs and benefits of smart-meter roll-out.

Unethical marketing and mis-selling are clearly not acceptable. Currently, suppliers are asked by the Consumer Council to sign up to a voluntary code, and we will consider whether this is sufficient to avoid bad practice and safeguard consumer confidence.

As we move forward to introduce fuller energy retail competition in Northern Ireland, we will be monitoring the development of the market. We will seek to ensure that competition delivers benefits to all customers and not just selected customer categories. What this means in practice will only become clear when we see the fuller picture of how domestic retail competition emerges. This includes:

- the numbers of suppliers involved,
- their marketing and customer targeting strategies,
- the extent to which certain customer groups (e.g. prepayment customers) benefit from competition or are seen to be not benefiting, etc.

We have a number of options in the future (e.g. licence conditions, Codes of practice, anti-discrimination requirements), should they be needed to ensure that all customers can benefit from competitive forces and customers pay fair and cost reflective prices.

#### **Social Action Plan (SAP)**

In order to examine the potential contribution to social development and ensure that utility services are meeting the needs of all customer groups, we carried out a consultation on its draft Social Action Plan in January 2009. A decision paper containing the final Social Action Plan for 2009-2012 was published in August 2009 and is available from our website.

The Regulator's Social Action Plan contains actions to address two main issues of:

- Equal access to utility services for vulnerable groups such as those who are disabled or chronically ill, who face language barriers or who may be vulnerable due to their age, rural location, or other reason.

We will continue to monitor activity and ensure that the utility suppliers comply with their licence provisions and codes of practice in relation to providing services to improve access to utility services for all customer groups.

- Financial insecurity.

Fuel Poverty is higher in Northern Ireland than any other region of the UK, estimated by the Home Energy Conservation Authority Report 2007 to be in the region of 34%. However due to a number of factors, including the economic down turn, it is widely accepted that the proportion of households experiencing fuel poverty is in excess of this figure.

We will continue to take action to help address this issue and has committed in its Social Action Plan to developing a standard Code of Practice for utility suppliers on helping customers to avoid debt and to manage their way out of debt.

The Social Action Plan contains a three-year timetable for implementation up to 2012, with a review process to start in Year 3 - 2011/2012.

A formal publication on the Social Action Plan will be issued in October 2009. The Decision Paper can be found here: [http://www.niaur.gov.uk/uploads/publications/2009-08-11\\_SAP\\_Decision\\_Paper\\_2009-2012.pdf](http://www.niaur.gov.uk/uploads/publications/2009-08-11_SAP_Decision_Paper_2009-2012.pdf)

### **Guaranteed Standards of Service (GSS)**

Article 42 of the Electricity Order 1992 allows the regulator to set standards of service for NIE and NIEES; there are currently 11 standards, most of which apply to the network business, which were set in 1993. With the advent of 2007 SEM legislation, the most immediate task is to split the standards into those applying to NIE's T&D business and those applying to suppliers.

Whilst gas companies do have Codes of Practice, there is no legislation underlying minimum standards customers can expect and no legal requirement to provide goodwill payments to customers when Standards are not met. DETI is currently drafting primary legislation similar to Article 42 of the Electricity Order, allowing the regulator to introduce guaranteed standards for gas distributors and suppliers. The timeframe for this is relatively long and it is likely to be 2011 before this process is complete.

The provisional Ministerial deadline for the development of guaranteed standards for the water industry was January 2008. This was delayed by the Hillyard Review which made recommendations regarding the statutory role of CCNI in formulating / monitoring guaranteed standards. However this, and the other recommendations of the report are still to be consulted upon by means of an Executive Consultation and thus, our role to consult consumers is still applicable.

Our new Retail Unit is leading a cross-utility group in a project to undertake a survey of electricity, gas and water customers in relation to Guaranteed Standards Schemes. It is envisaged this will be completed by April 2010, after which time each directorate (electricity, gas and water) will use the results to take forward sectoral-specific issues including a review of electricity standards and the introduction of new gas and water standards.

Equal access to utility services for vulnerable groups will be considered as part of our planned review of GSS.

### Protecting the vulnerable customers

Suppliers have developed specific schemes designed to help older customers, customers who have a disability or who are chronically ill. Among them are the following which offer special services for those qualifying under their schemes:

firmus care scheme (<http://www.firmusenergy.co.uk/domestic/existing-customers/firmuscare-scheme.htm>)

Phoenix Energy Care (<http://www.phoenix-natural-gas.com/supply/codes-of-practice/services/>)

NIEES customers care services (<http://www.nie.co.uk/nieenergy/homeenergy/onlineservices/customercare/services.htm>).

## 5. Contact Information

Comments on this report are very welcome by Friday 5<sup>th</sup> February and should be sent to:

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Retail Unit  
Queens House  
14 Queen Street  
BELFAST  
BT1 6ER  
[elena.ardines@niaur.gov.uk](mailto:elena.ardines@niaur.gov.uk)

**As noted at the outset, we would like to use this first report to understand stakeholders' views and suggestions on contents and how we might improve future editions. We encourage comments and ideas for improvement, new data sources, new data content that would be beneficial, etc.** Particularly would like to ask about the following issues regarding parts two and three of the report.

- We want to use this and particularly future editions of the report to monitor and collect information on the extent of competition in our energy supply markets and the extent to which participants view our supply markets as readily contestable. We do not think that the information provided in *Part Two Core Retail Information* is currently sufficient in terms of measuring the contestability of the market. We would like responses from stakeholders to identify other piece of information you would like to see reflected or information that we should remove in future editions as being irrelevant,
- Do you agree that issues briefed at *Part Three Key Future Work Areas* are the main targets of the Utility Regulator's Retail Unit? We have asked this before in previous consultations (i.e. Energy Retail Competition Work Programme: General Overview and Rationale) and know that most of our stakeholders agreed with it. However, we would welcome comments on this issue periodically with the issue of the Energy Retail Report.

## Annex

### Excerpt from the Energy (Northern Ireland) Order 2003

#### **The principal objective and general duties of the Department and the Authority in relation to electricity**

12.—(1) The principal objective of the Department and the Authority in carrying out their respective electricity functions is to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity.

(2) The Department and the Authority shall carry out those functions in the manner which it considers is best calculated to further the principal objective, having regard to—

- (a) the need to secure that all reasonable demands for electricity are met; and
- (b) the need to secure that licence holders are able to finance the activities which are the subject of obligations imposed by or under Part II of the Electricity Order or this Order; and
- (c) the need to secure—
  - (i) that the prices charged to tariff customers by public electricity suppliers for electricity supplied under Article 19(1) of the Electricity Order to premises in any area specified in an order made by the Department are in accordance with tariffs which do not distinguish (whether directly or indirectly) between different parts of that area; and
  - (ii) that public electricity suppliers are not thereby disadvantaged in competing with other persons authorised by a licence or exemption to supply electricity to such premises.

(3) In performing that duty, the Department or the Authority shall have regard to the interests of—

- (a) individuals who are disabled or chronically sick;
- (b) individuals of pensionable age;
- (c) individuals with low incomes; and
- (d) individuals residing in rural areas;

but that is not to be taken as implying that regard may not be had to the interests of other descriptions of consumer.

(4) The Department and the Authority may, in carrying out any electricity functions, have regard to the interests of consumers in relation to gas.

(5) Subject to paragraph (2), the Department and the Authority shall carry out their respective electricity functions in the manner which it considers is best calculated—

- (a) to promote the efficient use of electricity and efficiency and economy on the part of persons authorised by licences or exemptions to supply or participate in the transmission of electricity;
- (b) to protect the public from dangers arising from the generation, transmission or supply of electricity;
- (c) to secure a diverse and viable long-term energy supply;

(d) to promote research into, and the development and use of, new techniques by or on behalf of persons authorised by a licence to generate, supply or participate in the transmission of electricity; and

(e) to secure the establishment and maintenance of machinery for promoting the health and safety of persons employed in the generation, transmission or supply of electricity;

and shall have regard, in carrying out those functions, to the effect on the environment of activities connected with the generation, transmission or supply of electricity.

(6) In this Article “electricity functions” means—

(a) functions under Part II of the Electricity Order; and

(b) functions under this Order relating to electricity

### **The principal objective and general duties of the Department and the Authority in relation to gas**

**14.**—(1) The principal objective of the Department and the Authority in carrying

out their respective gas functions is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.

(2) The Department and the Authority shall carry out those functions in the manner which it considers is best calculated to further the principal objective, having regard to—

(a) the need to protect the interests of consumers of gas;

(b) the need to secure that licence holders are able to finance the activities which are the subject of obligations imposed by or under Part II of the Gas Order or this Order;

(c) the need to secure that the prices charged in connection with the conveyance of gas through designated pipe-lines (within the meaning of Article 59) are in accordance with a common tariff which does not distinguish (whether directly or indirectly) between different parts of Northern Ireland or the extent of use of any pipe-line; and

(d) the need to protect the interest of gas licence holders in respect of the prices at which, and the other terms on which, any services are provided by one gas licence holder to another.

(3) In performing that duty, the Department or the Authority shall have regard to the interests of—

(a) individuals who are disabled or chronically sick;

(b) individuals of pensionable age;

(c) individuals with low incomes;

but that is not to be taken as implying that regard may not be had to the interests of other descriptions of consumer.

(4) The Department and the Authority may, in carrying out any gas functions, have regard to the interests of consumers in relation to electricity.

(5) Subject to paragraph (2), the Department and the Authority shall carry out their respective gas functions in the manner which it considers is best calculated—

(a) to promote the efficient use of electricity gas;

(b) to protect the public from dangers arising from the conveyance, storage, supply or use of gas;

(c) to secure a diverse and viable long-term energy supply;

(d) to facilitate competition between persons whose activities consist of or include storing, supplying or participating in the conveyance of gas;

and shall have regard, in carrying out those functions, to the effect on the environment of activities connected with the conveyance, storage, supply or use of gas.

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