

**Inquiry into  
Business Electricity  
Tariffs  
in Northern Ireland**

**A Report by the Utility Regulator  
March 2010**



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## **Executive Summary**

### **Background**

In December 2008 the decision was made by the Utility Regulator to make an in year adjustment to the Public Service Obligation (PSO) Levy in Northern Ireland. This adjustment changed the levy from a cost of 0.222 p/kWh to a rebate (payment to customers) of 1.568 p/kWh. For business customers this amounted to a discount of between 20% and 40% off their final price. This rebate was payable from 1 January 2009 until 30 September 2009.

When the regulated tariffs, applicable from 1 October 2009 were finalised, prices for business customers increased. This caused concern within the business community in Northern Ireland. As a result, the Utility Regulator held a briefing session for business customers on 6 November 2009. Following the discussion at this seminar, and the receipt of 17 written complaints, the Utility Regulator decided to undertake an inquiry into the business tariffs in Northern Ireland.

The Utility Regulator decided that the inquiry would focus on four aspects, which were:

1. Communication about the PSO rebate
2. Business customer understanding of electricity bills and quotations
3. Wholesale price risk management (“hedging”)
4. Scope and merits of re-profiling the future PSO levy

This inquiry took the form of a data collection exercise, followed by structured interviews with the 17 customers and four suppliers. In parallel, the project team undertook modelling of the prices paid by the customers and the underlying costs in the market. This report contains the results of the inquiry and recommendations for subsequent action.

### **Communications**

The inquiry identified that there are significant differences between the attitudes and competencies of suppliers in respect of their communications with customers. This provides the more proactive suppliers with a selling point that should differentiate them from their competitors.

Most of the 17 customers in the survey were told about the rebate coming to an end in October, but only two of them carried this knowledge forward to their budgeting process. This is partly due to the method of communication by the suppliers but in some cases also due to the internal communications within the customer organisations.

The Utility Regulator has an opportunity to use our website to collate all tariff information and to present it in an accessible format. The content and format of the tariff briefing sessions will be revised for this year. Further seminars will be held to inform and listen to business customers.

### **Customer Understanding**

Electricity is more complicated than other commodities for one fundamental reason; it cannot be stored in any meaningful quantity. In addition, the structure of the industry, that is essential to allow generators and suppliers to compete, can result in complex tariff structures. Customers do not appear to fully understand these complexities. In addition,

quotations from each supplier are presented in different formats, which frustrate customers' efforts to make a choice of the lowest cost offer.

The Utility Regulator can support customers by producing a "Buyers Guide" to help them negotiate their way through the market. We will discuss ways to improve the clarity of invoices and quotations with suppliers, which may be followed with a wider industry consultation if appropriate.

## **Risk Management**

The price of wholesale electrical energy is extremely variable, with prices changing every half hour. The suppliers in Northern Ireland offer four main risk management options to customers to help them deal with this uncertainty. However, the customers appear to find these confusing and are hindered in their ability to make informed decisions. The energy cost makes up approximately 70% of their electricity prices, therefore the decisions made regarding this have a very large impact on the price that is paid.

## **The Future PSO Levy**

The PSO levy makes up 5 - 10% of the typical cost of electricity for a business customer in Northern Ireland. During the inquiry the future options for this levy were examined. The magnitude of this charge is expected to reduce in the coming years. The requirement for cost reflective tariffs means that cross-subsidy between customer groups are not permitted. The benefits from the services funded are obtained by all consumers, which restricts the options for re-profiling this charge. Furthermore, there is limited scope and merit in re-profiling the PSO costs over a longer time period.

## **Competition**

Customers raised concerns about the amount of competition in the market. While not part of the original terms of reference, the inquiry team examined the key indicators of competitiveness for this market. The number of quotations provided by suppliers and the subsequent percentage of customers switching suppliers has increased as a direct result of the changes to the wholesale market in November 2007 (the introduction of the Single Electricity Market). However, only 34% of customers have switched supplier and this market is still immature<sup>1</sup>. The Utility Regulator will continue to monitor closely progress in this area.

## **Utility Regulator Actions**

The following items will be added to the Utility Regulator Forward Work Plan:

- The production of a "Buyer's Guide" for business customers, which will include templates for quotation comparison;
- An information seminar on 1 July 2010 to inform and listen to business customers and suppliers about the expected changes in the regulated tariffs to apply from 1 October 2010;
- Ongoing monitoring of the main indicators of competitiveness in the market for business customers; and
- A review of supplier licences with regards to clarity of quotations and invoicing, if required.

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<sup>1</sup> 66% of customers have switched by volume.

There is an opportunity for suppliers to improve the clarity of the invoices and quotations that they produce. Their communication to customers should be more focused on the key decision makers, which should have a beneficial impact on their market share.

However, suppliers will only respond in a meaningful way if customers expect higher standards of service. The Buyer's Guide will empower them with the information that they require to do this, but will only be effective if they refer to it during their procurement exercises.

## Glossary

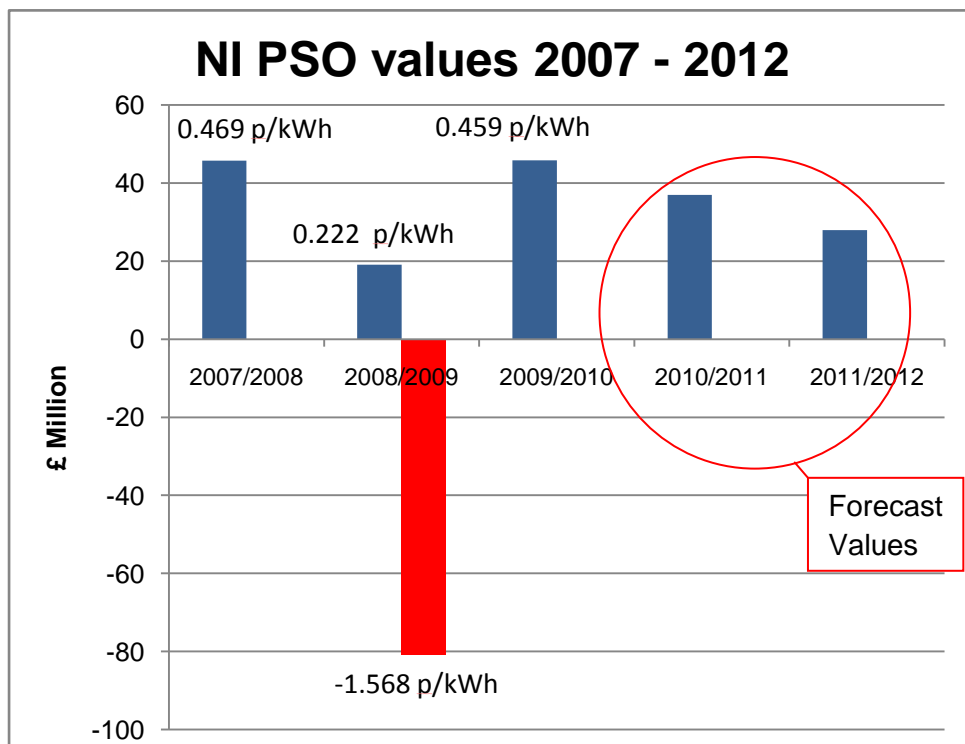
Acronym	Definition
CBO	Customer Buy Out
DUoS	Distribution Use of System
FGD	Flue Gas Desulphurisation
MO	Market Operator
NFFO	Non-Fossil Fuel Obligation
NIE Energy	Northern Ireland Electricity Energy Supply
NISEP	The Northern Ireland Sustainable Energy Programme
NIE T&D	Northern Ireland Electricity Transmission & Distribution
PPB	Northern Ireland Electricity Power Procurement Business
PSO	Public Service Obligation
ROF	Renewable Output Factor
SEM	Single Electricity Market
SEMO	Single Electricity Market Operator
SONI	System Operator Northern Ireland
SSS	System Support Service
TUoS	Transmission Use of System

# 1 Introduction and Background

## 1.1 Context

In December 2008 the decision was made by the Utility Regulator to make an in year adjustment to the PSO Levy in Northern Ireland. This adjustment changed the levy from a cost of 0.222 p/kWh to a rebate (payment to customers) of 1.568 p/kWh. For business customers this amounted to a discount of between 20% and 40% off their final price. This rebate was payable from 1 January 2009 until 30 September 2009. This is shown in Figure 1 below.

Figure 1: Northern Ireland PSO values 2007 - 2012



When the regulated tariffs applicable from 1 October 2009 were finalised, prices for business customers increased. At the same time the price for domestic customers decreased by 5%. This caused concern within the business community in Northern Ireland. As a result the Utility Regulator held a briefing session on 6 November 2009 to provide information to business customers about the tariff structure and reasons behind the changes.

Following the discussion at this seminar, and the receipt of 17 written complaints, the Utility Regulator decided to undertake an inquiry into the business tariffs in Northern Ireland.

## 1.2 Inquiry Context and Terms of Reference

The Utility Regulator decided that the inquiry would focus on four aspects of the tariff process. Which were:

1. Communication about the PSO rebate
2. Business customer understanding of electricity bills and quotations
3. Wholesale price risk management (“hedging”)
4. Scope and merits of re-profiling future PSO

In addition, concerns about competition in this sector were also raised with the Utility Regulator by business organisations. It was decided to include a review of this to the scope of work.

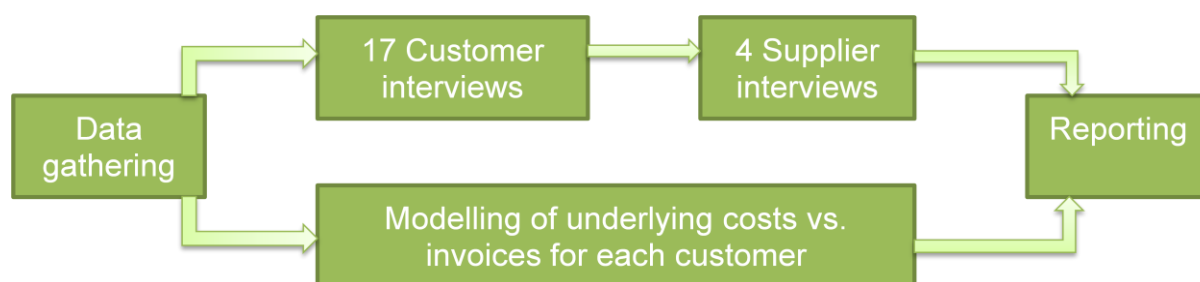
The team undertaking the inquiry was made up of Utility Regulator staff, supported by Gemserv (a specialist energy consultant) who undertook the modelling and data analysis work. Both organisations were represented at all interviews.

The inquiry followed a structured format. A data request was issued to the customers. All 17 customers who complained in writing provided us with a full set of information. This was followed by a structured interview using a formal questionnaire. The interviews with customers were undertaken at their premises and lasted between 60 and 90 minutes.

Once the customer interviews were complete the team met with the four suppliers at the Utility Regulator's offices, again using a formal questionnaire. These interviews lasted more than two hours each. Following the interviews, the suppliers submitted documentation to support their responses.

In parallel with the interview process, modelling was undertaken of the prices paid by customers. These were compared with the underlying costs that the suppliers were exposed to. The results of this modelling informed the third part of the inquiry terms of reference (wholesale price risk management).

**Figure 2: The process followed by the inquiry team**





## 2 Communications

### 2.1 Communications Timeline

<b>Date</b>	<b>Content</b>	<b>Format</b>
18/09/08	The PSO values to apply from 1 October 2008 are published by NIE T&D.	Notice on NIE website
12/12/08	Announcement of PSO rebate to apply from 1 January 2009.	Notices on NIE website, Utility Regulator website and NIE Energy website
January / February 2009	Suppliers add a note to their invoices to be issued during January to inform customers about the PSO rebate.	Note added to invoices
Spring 2009	Larger customers are contacted by their suppliers to provide information about the rebate and are advised to budget assuming that the rebate will expire at end of September 2009.	Email, phone call
12/03/09	One supplier holds a seminar for key customers which includes a recommendation to budget assuming PSO is at a similar level to previous years. Three companies in our survey attend.	Seminar, with powerpoint presentation
June to August 2009	The Utility Regulator (in conjunction with CER) publishes regular updates on progress with the calculation and approval of the regulated tariff components.	Posted on Utility Regulator website
14/08/09	The charging statement for the System Support Services and Transmission Use of System Tariffs is published.	SONI's website (www.soni.ltd.uk)
14/08/09	The charging statement for Distribution Use of System (DUoS) is published.	NIE website
21/08/09	The PSO values to apply from 1 October 2009 are published by NIE T&D. An email is also sent to all suppliers by NIE on behalf of the Central Design Authority informing them of this (as agreed through the market opening process).	NIE Website and email

<b>Date</b>	<b>Content</b>	<b>Format</b>
26/08/09	The Utility Regulator hosts a briefing session to explain trends in the domestic retail tariffs for gas and electricity. This includes some information about the regulated tariff components.  In this presentation the PSO was referred to as “draft” as values for one element were still to be approved by the SEM committee (at their meeting the following day).	Presentation (published on Utility Regulator website)
27/08/09	The final value of the capacity pot is published (the element of the PSO that was “draft” on 26/08/09).	The joint regulatory website (The All Island Project website) <a href="http://www.allislandproject.org">www.allislandproject.org</a>
01/09/09	The market operator and imperfections tariffs are published by SEMO (the operator of the Single Electricity Market).	Notice on SEMO’s website ( <a href="http://www.SEM-O.org">www.SEM-O.org</a> )
11/09/09	The Utility Regulator publishes a briefing note explaining the reasons behind the changes in the regulated tariffs for 2009/10.	Notice on Utility Regulator website.
16/09/09	The NIE Energy tariffs to apply from 1 October 2009 are published.	NIE Energy website,
Before 29 September 2009	The larger customers of two of the suppliers are told of the changes to their tariffs (note: for some time bands the price decreased and for other time bands the price increased, so the overall change was customer specific).	Letter, email or phone call
During October 2009	The larger customers of the other two suppliers are informed of the changes to their tariffs.	Email or letter
During November 2009	The remaining customers were informed of the changes via a note on their invoices.	Note added to invoice

## **2.2 Findings on Communications**

### **2.2.1 Suppliers**

- All suppliers are obliged to pay the regulated tariffs under their licences. They receive an invoice for the aggregate of all the electricity consumed by their customers. The suppliers choose the method by which these costs are allocated to their customers.

- Not all suppliers pass these costs on directly. One supplier reduces the number of time bands in the year, while another only provides a fully bundled price and retains the option to review the price when NIE Energy announces a change in its tariffs. The suppliers could be expected to ensure that their customers / potential customers understand how they pass these charges onto them.
- There were significant differences in the attitudes and competencies of suppliers in respect to communication to their customers.
  - One supplier stated in the interview *“there is no legal obligation on us to explain pass through charges to customers”*.
  - Another supplier admitted that they *“missed the announcement in December 2008.”*
  - For smaller customers, the only information they received regarding changes to regulated tariffs was a note on the first invoice where the new tariffs were applied.
- Quotations provided by all suppliers between January and August 2009 included the assumption that the PSO rebate would continue indefinitely. This caused significant confusion as customers thought they were signing up to a fixed price, which included the rebate for the duration of their contract.
- There was a significant difference between suppliers in the speed with which they informed their customers of tariff changes from 1 October 2009. Two contacted their customers before the start of October, while the others contacted their customers during October and early November.
- The use of a line on an invoice to inform customers about changes in tariffs is not a particularly effective way to pass a message about prices to decision makers within a customer’s organisation.

### **2.2.2 Customers**

- The customers surveyed through the inquiry received a discount on their electricity bills of between 20% and 40% in January 2009. None of the customers in this survey queried the source of this with their suppliers, or asked how long it would last.
- While most of the companies received some form of communication about the rebate, only two out of the 17 carried this knowledge forward to their budgeting process.
- In larger organisations, the people who process the invoices are not the key decision makers who need to be informed about the trend in tariffs, therefore this information is not always carried through into the customer’s budget processes.

### **2.2.3 The Utility Regulator**

- The PSO tariff applicable from 1 October 2009 was published four weeks earlier than the previous year.
- There was confusion as a result of the reference to “draft” in a seminar on 26 August conducted by the Utility Regulator.
- However, the publication of the background note on 11 September 2009 should have removed all doubt about the number to be applied

- The elements of the regulated tariffs are published separately on three different websites (NIE, SONI and SEMO). These are not easy to find. For example the DUoS and PSO statements are located on the NIE website, under Market Opening. The customer would then have to select the “Central Design Authority” page, and then scroll to the very bottom of the page to find the publications. This is not obvious or intuitive, even for professionals working in the industry.

## **2.3 Remedies Regarding Communications**

There are opportunities for all three parties to improve communications.

### **1) Suppliers**

- Can differentiate their offering to customers on the basis of the standard of information and communication that they offer.

### **2) Customers**

- Can review their internal communications and budgeting process, to ensure that they collate information during the year to feed into the budget process.

### **3) Utility Regulator**

- Use our website to provide a single point of information relating to the regulated components of electricity tariffs in Northern Ireland.
- Provide a briefing specifically for business customers regarding their tariffs.
- Periodically monitor how and what suppliers are communicating to customers regarding tariffs.
- Host regular seminars to inform and listen to business customers.

### 3 Customer Understanding

#### 3.1 Facts Relating to Customer Understanding

Electricity is more complicated than other commodities for one fundamental reason, it cannot be stored in any meaningful way. The network has to be built to cope with the instantaneous peak demand, and the cost of producing the commodity changes with demand, which is constantly fluctuating. The Single Electricity Market restricts the price fluctuations to once every half hour.

The structure of the industry is partly shaped by European legislation and the network and market companies have been separated to ensure that generators and suppliers can compete on a level playing field. Cross-subsidies are not permitted and each entity has to charge for the services it provides. This results in suppliers being invoiced separately for each service that they require. It is then up to the suppliers how these charges are passed onto customers and whether they separate the items on their invoices.

For a customer on a completely unbundled tariff, one electricity invoice can have up to 19 items listed on it. These are listed in Table 1 below.

**Table 1: The items on an unbundled Electricity Invoice.**

Ref	Item	Charged by
1	Energy component:	Peak
2		Day
3		Night
4		Evening and weekend
5	Transmission Use of System:	Peak
6		Day
7		Night
8		Evening and weekend
9	Distribution Use of System:	Peak
10		Day
11		Night
12		Evening and weekend
13	System Support Services Tariff	SONI
14	Market Operator Charge	SEMO
15	Imperfections Charge	SEMO
16	Capacity Charge	SEMO
17	Public Service Obligation Levy	NIE Transmission and Distribution
18	Climate Change Levy	Government (HMRC)
19	VAT	

The first 12 items (Energy, Distribution System and Transmission System charges) will also vary between months. Where a supplier only offers a bundled price, there would be a maximum of six items

- A bundled price for the first 17 items in the list above, probably broken down into four time bands:

- Peak
- Day
- Night
- evening & weekend),

The unit costs for these items may vary between months.

- Climate Change Levy
- VAT

### 3.2 Findings regarding understanding

The main findings of this part of the investigation are:

- Customers do not fully understand the complexities of the electricity market.
  - *“it is like wading through treacle”*
- Customers are making decisions about the choice of supplier or risk management strategy without fully understanding the implications of their decisions.
 

*“With hindsight, due to the complexity of the tariff structure we entered into a two year £1.8 million contract with a lack of clear understanding of what we entered into”*
- Quotations are not presented by suppliers in a format that facilitates like for like comparison of the full cost of the contract.
- For example one customer who received three quotations and made a decision based on the apparent price of the quotation, appears to have made the wrong choice. Their “winning” bid did not identify the need to add Climate Change Levy onto the bottom line, while the bid that “should have won” included “green energy” in the price quoted, which means it was exempt from the Climate Change Levy. The difference between the true total cost of the offers was 5% of the total, meaning that the company paid approximately £25,000 more than necessary over the year.
- This lack of clarity of quotations disadvantages both customers who pay more than they need to and the suppliers who lose business unnecessarily.
- The “jargon” used in the electricity industry perpetuates this lack of understanding.
- While the procurement of electricity appears to be complex, there are opportunities for the Utility Regulator and customers to work together to improve the quality of the information that they receive.

### 3.3 Remedies - Understanding

The Utility Regulator has identified a number of things that we can do to help improve customer understanding. This is consistent with our duty to promote competition in the supply of electricity. The proposed work items are:

- The production of a Buyer’s Guide for electricity procurement in Northern Ireland. This would be a document including:
  - An explanation of the industry structure, the annual tariff cycle and what each charge covers;
  - An identification of the items that suppliers will compete on;

- The pass through costs and what to look for in a contract to see if the price will change with the regulated tariffs;
- A description of the risk management options and their pros and cons to help a business choose which is best;
- The government taxes and when each is payable;
- Templates that can be used for quotations, to allow comparison on a like for like basis; and
- A description of the processes to be followed for competitive quotations and changing supplier

It is intended to publish this document in the summer of 2010, in conjunction with the finalisation of the regulated tariffs for 2010/11

- Further discussions will take place between the Utility Regulator and suppliers regarding the clarity of invoices and quotations. The Supplier licences can be changed (if required) to oblige them to provide invoices and quotations that comply with best practice for clarity and presentation of information. This will be consulted upon if the licence change is considered necessary.

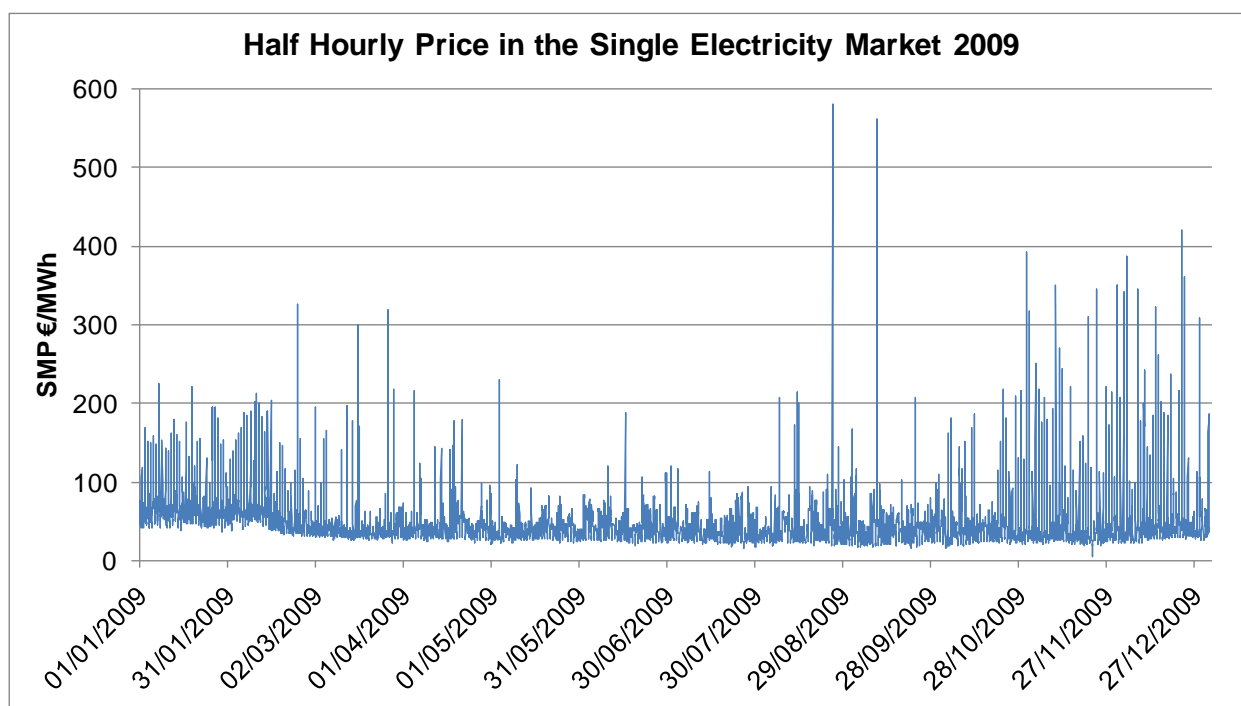
## 4 Risk Management

### 4.1 What is risk management

The cost of electricity is made up of three components - the energy cost, the cost of the infrastructure required to transport the power safely to the customer and an overhead known as the PSO levy. The cost of the infrastructure is covered by the regulated tariffs, while the cost of the energy is determined by the supplier, and will include the supplier's overheads and profit margin.

As the electrical energy cannot be stored, the cost to produce it changes continuously. At times of low demand only the most efficient power stations are running, but as demand increases the more expensive plant are switched on. On the island of Ireland, these prices are calculated by the Single Electricity Market Operator, and as can be seen on Figure 3 below, the price varied between €4.12/MWh and €581/MWh during 2009. (The demand weighted average price was €46.7/MWh). Very few customers can manage their production schedules to respond to a price that changes every half hour, therefore some form of smoothing of the prices is provided by the suppliers. In addition, the energy costs are determined in advance, so the customer is able to budget. This service (smoothing and guaranteeing a price in advance) is known as risk management or hedging.

**Figure 3 – half hour price of electrical energy in the Single Electricity Market 2009**



The risk management options being offered in Northern Ireland were investigated as part of the inquiry. This identified four main options on offer:

- i. **The energy price fixed at the time of quotation**, for one or more years (regulated costs remaining variable). The customer's choice of date to ask for a quotation has a strong impact on the final price paid, and while superficially seen as the least risky option it can actually be seen as being more risky than the next two options, as the customer puts all of their eggs in one basket. This was the option selected by Company Y in Figure 5 below.
- ii. **The energy price indexed to the price of gas**, this option allows the customer to select the day that they chose to fix the price independent of the date the contract is



signed. The customer does not have to fix the price for a whole year at one time, allowing more flexibility, often identified on invoices as “gas price adjustment”. This option requires the price to be set before the start of each month and the default is based on the gas price on the last trading day of the month. This is offered to the larger industrial customers only; Company X below had this type of contract.

- iii. **The energy price is adjusted at the end of the month** depending on the movement of the price in Single Electricity Market, often identified as “energy price adjustment” on invoices. This means that only the true underlying cost is paid, however the amount to be paid is not known until the invoice is received.
- iv. **A discount against the published NIE Energy tariffs.** This can either be a constant percentage reduction for the duration of the contract, or a percentage reduction that remains valid until NIE Energy adjusts their tariffs. This is mostly on offer to smaller commercial customers only, and while guaranteed to be cheaper than NIE Energy, the customer is then vulnerable to subsequent changes in the discount rate. This discount is only guaranteed until NIE Energy changes its prices.

## 4.2 Findings regarding risk management

The inquiry discovered a perception among customers that contracts for electricity are restricted to the year 1 April – 31 March. This is not the case, and customers can seek contracts for any time period they wish. Given that the busiest time for suppliers is in March, there are possible benefits to contracting at a different time, particularly for customers whose financial year is based on the calendar year. The regulated tariffs change on 1 October each year.

The inquiry found that each customer had a different understanding of the risk management options open to them, and some were unaware of the risk they were taking when agreeing the price on a particular day. This was particularly significant for the customers who only received a quotation from their existing supplier, mostly close to the end of their current contract.

The inquiry team modelled the underlying cost<sup>2</sup> of electricity for each customer and compared it to their invoices. This showed a great range in the prices paid, when compared to the underlying costs and highlights the importance of informed risk management.

Two examples are shown in Figures 4 and 5. These also demonstrate the effect that the consumption profile has on the underlying cost of supplying electricity. Company X consumes electricity at a fairly constant rate, while Company Y operates a two shift process five days per week. The analysis has shown that the underlying cost of electricity to Company Y is 10% more expensive than Company X, directly as a result of the consumption pattern.

Company X had a fixed price for 2008, which meant that they avoided the high commodity prices experienced during that year, but then changed strategy and “floated” during 2009. This allowed them to take advantage of falling prices.

Company Y fixed their prices both years. The decision worked well for them in 2008, however they also fixed at a high price for 2009, which meant that they did not capture the benefit of the fall in commodity prices.

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<sup>2</sup> The underlying cost is made up of the variable wholesale energy cost, the regulated networks costs and the PSO charges faced by suppliers. It does not include supplier hedging costs, overheads or margins.

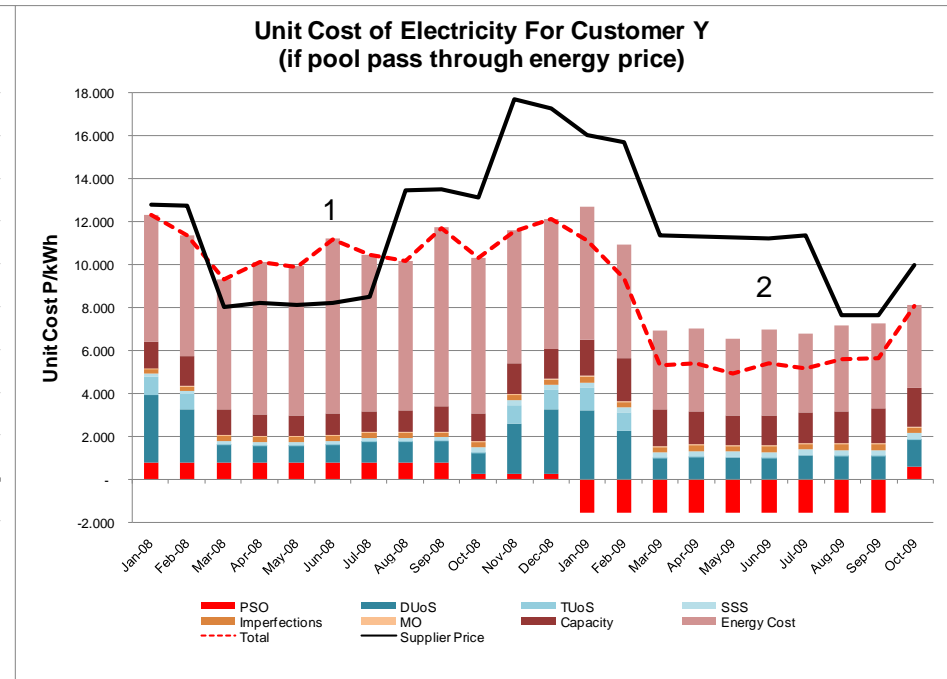
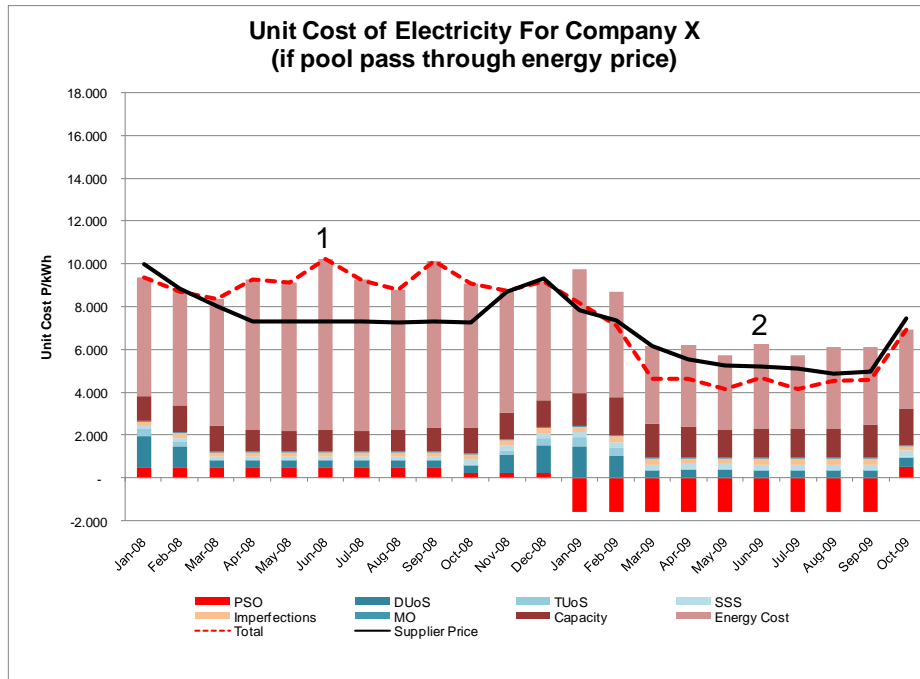
No robust conclusions can be drawn regarding the profit margins of suppliers from these graphs as they do not consider any financial hedges placed by suppliers into place to minimise their exposure to market volatility.

### **4.3 Risk Management – Remedies**

In any competitive market customers can choose how they purchase the goods that they require. This also applies to the deregulated electricity market and it can be expected that some customers will be more successful than others. The role of the Utility Regulator in this context is one of informing and educating customers rather than directing supplier behaviour.

The Utility Regulator will use the Buyer's Guide to inform customers about the risk management options that are available to them. This will also include a summary of the advantages and disadvantages of each option, but will leave the customer free to decide which is most suitable for its own circumstances.

The SEM committee is undertaking a workstream to investigate the availability to suppliers of risk management products in the Single Electricity Market. This review, entitled "review of liquidity in the Single Electricity Market" is due later in 2010. Improving the availability of risk management products for suppliers should help to improve competition.



**1: June 2008**

Customer cost = 7.3 p/unit  
 Underlying cost = 10.2 p/unit  
 Saving = -2.9 p/kWh

**2: June 2009**

Customer cost = 5.2 p/unit  
 Underlying cost = 4.7 p/unit  
 Additional Cost = 0.5 p/kWh

**1: June 2008**

Customer cost = 8.2 p/unit  
 Underlying cost = 11.2 p/unit  
 Saving = - 3.0 p/kWh

**2: June 2009**

Customer cost = 11.2 p/unit  
 Underlying cost = 5.4 p/unit  
 Additional cost = 5.8 p/kWh

**Figures 4 and 5: The Cost of Electricity to Customers X and Y**

## 5 The Future of the PSO

### 5.1 The composition of the PSO

The main items within the PSO are listed in Table 2 below. These items benefit all electricity consumers in Northern Ireland. The most significant items are:

- **The CBO Allocation:** this is the cost associated with the redevelopment of Ballylumford Power Station, which is due to expire on 31 March 2012.
- **Kilroot Flue Gas Desulphurisation:** This investment was required to ensure that Kilroot Power Station could remain operational in the medium term. Kilroot is the only power station in Northern Ireland that does not rely on gas, and therefore provides an important element of Northern Ireland's fuel security. This cost is due to expire in November 2010, which is the earliest date that the legacy contract can be cancelled.
- **Legacy Generation Costs / Benefits:** this is the income (or cost) that Northern Ireland customers make from the contracts that we have with the power stations. The income is obtained from the Single Electricity Market, and the amount in the PSO levy is the profit (or loss) made once the costs under the legacy contracts have been paid. From November 2010 it will be possible for the Utility Regulator to cancel eight out of 10 of these contracts.
- **Market Costs:** these costs cover a range of items that are payable to NIE T&D associated with the opening of both the business and domestic markets
- **The Northern Ireland Sustainable Energy Programme (NISEP):** the level of funding for the NISEP is reviewed regularly by the Utility Regulator and the programme is administered by the Energy Savings Trust. Both business and domestic customers can benefit directly from energy efficiency projects developed out of the funds collected. 80% of the funding is ring fenced for vulnerable customers.

### 5.2 Findings

There is general confusion about what the PSO is comprised of and what benefit these items are to electricity customers. PSO costs are forecast to reduce. Some customers had asked if the Utility Regulator could re-profile these costs either across time or across consumer groups. We have concluded that there is little merit in trying to delay these costs as the short term benefit would not be material. The Utility Regulator's policy is to recover costs on a cost-reflective basis and is still considering the market costs in this context.

### 5.3 Remedies – PSO

In accordance with EU requirements, the PSO could only be re-profiled to charge more to domestic customers if it could be proven that they received a disproportionate benefit from the services being provided. While there is scope for debate about the precise benefits both business and domestic customers have received from the market opening, the impact of rebalancing this would be immaterial once the contribution of domestic customers to the first wave of market opening was refunded.

**Table 2 – the composition of the PSO Levy**

£m	2007/08	2008/09	2009/10	2010/11 Forecast	2011/12 Forecast
NFFO/ROF		-3.9	0.4	0.4	0.4
Landbank		0.15	0.1	0.1	0.1
CBO Allocation		20.7	20.7	20.7	11.7
Kilroot FGD		22.8	24.0	0	0
Legacy Generation Costs/(Benefits)		(37.5)	(15.1)		
Market Costs		10.2	8.0	8.0	8.0
NISEP		6.8	7.8	7.8	7.8
<b>Total</b>	<b>45.7</b>	<b>19.1</b>	<b>45.8</b>	<b>37.0.</b>	<b>27.9</b>
PPB Rebate		(100)			
<b>Adjusted Total</b>		<b>(80.9)</b>			

## 6 Competition

### 6.1 Issues Raised

Before the inquiry commenced, and during the customer interviews, concerns were raised about the lack of competition between electricity suppliers in Northern Ireland. Customers also compared the electricity suppliers with other suppliers they deal with on a day to day basis and were surprised that the electricity suppliers were not “knocking on their doors” more frequently and more vigorously.

One customer who has manufacturing facilities in Northern Ireland and in GB, said:

*“in GB suppliers are knocking on the door to offer prices, in Northern Ireland the customer has to chase quotations”*

However another customer’s perception was different:

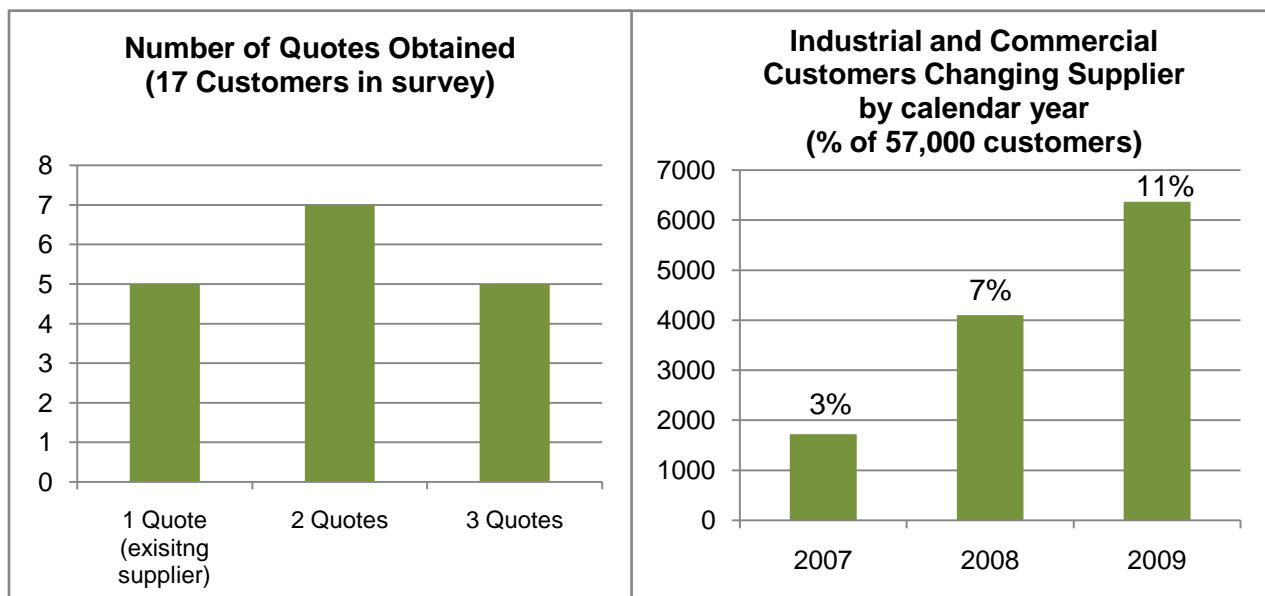
*“competition is now much better than it used to be – the contract result in March 2009 is the best result ever”*

As a result of these issues, the inquiry team undertook some analysis of the trends in customer switching and the number of quotations received by the customers in the survey.

### 6.2 Findings – competition

The inquiry identified that before the introduction of the Single Electricity Market in November 2007, the volumes of electricity available to suppliers were restricted by the design of the market. Following the introduction of Single Electricity Market, the number of quotations that suppliers have offered to customers and the subsequent number of customers changing supplier has increased. This is illustrated in the figures below.

**Figures 6 and 7: Indicators of competitiveness in the market**



Market opening commenced in Northern Ireland in 1999 for the larger customers, and by 2005 all non-domestic customers were able to change supplier. However to date, only 34% of eligible customers have moved away from NIE Energy.<sup>3</sup>

This, along with the number of quotations provided to the customers in our survey in 2009, indicates that the market is still immature.

### **6.3 Remedies – Competition**

As the market is still evolving, following the step change of the introduction of the Single Electricity Market, it is essential that the Utility Regulator continues to monitor the developments closely. The Annual Retail Report published by the Utility Regulator will contain details of the key indicators of competitiveness. This will identify any reduction in market activity, and if necessary the Utility Regulator will respond in line with our statutory duties.

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<sup>3</sup> 66% of customers by volume have changed supplier

## **7 Conclusions**

### **7.1 Process**

The process followed by the inquiry, a data request followed by structured interviews, proved to be effective. The background modelling of underlying costs has produced a robust model of the cost of electricity in Northern Ireland which has provided an insight into the competitiveness of the prices paid by the customers in the survey.

### **7.2 Communications**

There is scope for all parties to improve the standard of communication in the context of business tariffs. The Utility Regulator can provide a single point for all relevant information, suppliers can use their standard of communications as a selling point to customers and customers are recommended to review their processes for ensuring that the pertinent information is passed on to the key decision makers with their organisation.

### **7.3 Customer Understanding**

There is an opportunity for the Utility Regulator and suppliers to assist customers in improving their understanding of the electricity market. The Utility Regulator will produce a Buyer's Guide, while the suppliers can improve the clarity of their invoices and quotations.

### **7.4 PSO Levy**

There is little scope or merit for changing the allocation of the PSO levy between customer groups or re-profiling over time. The amount of money to be recovered from this source will be decreasing over time. The Utility Regulator will use its briefing sessions with business customers and suppliers to provide a forward estimate of the expected trend.

### **7.5 Risk Management**

The risk management strategy adopted by a customer and the timing of purchase decisions has a significant impact on the final price paid for electricity. The customers in the survey were confused by the options available to them.

### **7.6 Competition**

The electricity market for business customers in Northern Ireland is still immature. The introduction of the Single Electricity Market in November 2007 was an important milestone, however there is still scope for significant growth. The Utility Regulator will proactively monitor the market for signs of continued development.

### **7.7 Utility Regulator Forward Work Plan**

The following items will be carried out by the Utility Regulator:

- The production of a Buyer's Guide for business customers, which will include templates for quotation comparison;
- An information seminar on 1 July 2010 to inform business customers and suppliers about the expected changes in the regulated tariffs to apply from 1 October 2010;
- Ongoing monitoring of the main indicators of competitiveness in the market for business customers; and



- A review of supplier licences with regards to the clarity of quotations and invoicing, if required.