

Annual Energy Retail Report

2014



About the Utility Regulator

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

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

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

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing the markets, networks and corporate affairs functional areas of the organisation. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission:

Value and sustainability in energy and water

Our Vision:

We will make a difference for consumers by listening, innovating and leading

Our Values:

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted

Be a united team

Be collaborative and cooperative

Be professional

Listen and explain

Make a difference

Act with integrity

Abstract

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

The data relates mainly to market shares, market activity and domestic prices in the electricity and gas retail markets, and non-domestic prices in the electricity sector.

The information shown in this report is provided by network companies, suppliers, DECC and Eurostat. Various figures have been calculated internally by the UR based on the various submissions.

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

Audience

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

Consumer impact

This report increases transparency for energy consumers and details information on relevant indicators such as the active suppliers in each energy market sector, the make-up of electricity and gas bills, NI energy price comparisons with other jurisdictions, etc.

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

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1. Summary

The following table shows a summary of some of the key indicators that we currently monitor in the retail electricity and gas sectors.

Table 1 Summary of key market indicators

2013	Electricity		GAS: Greater Belfast		GAS: Ten towns	
	Domestic	Non domestic	Domestic and small non-domestic	Medium and large non-domestic	Domestic	Non domestic
Customer numbers/connections at year end	782,859	60,184	162,644	3,176	19,421	2,073
Consumption in 2013 (GWh/thousand therms)	3,244	4,834	65,718	68,237	5,275	47,904
% of prepayment customers within domestic sector	39%		63%		89%	
Number of active suppliers over this year	5	8	3	5	1	2
Market shares (by customer numbers/connections) of largest suppliers	Power NI: 73% SSE Airtricity: 20% Budget Energy: 6%	Power NI: 50% SSE Airtricity: 27% Energia: 12%	SSE Airtricity: 73% firmus: 27%	SSE Airtricity: 52% firmus: 48%	firmus: 100%	I&C < 732,000 kWh: - firmus: 100% I&C > 732,000kWh: - firmus: 92% - SSE Airtricity: 8%
Market shares (by consumption) of largest suppliers	Power NI: 71% SSE Airtricity: 24% Budget Energy: 4%	SSE Airtricity: 31% Electric Ireland: 27% Energia: 23%	SSE Airtricity: 72% firmus: 28%	SSE Airtricity: 53% firmus: 46%	firmus: 100%	I&C < 732,000 kWh: - firmus: 100% I&C > 732,000kWh: - firmus: 90% - SSE Airtricity: 10%
Switching rate: number of switches in 2013 as a % of customer numbers at end 2013	9.0%	5.0%	Domestic: 9%	All non-domestic: 5%		
Prices	Around EU-15 median	Very small customers (0-20 MWh pa): around EU-15 median Rest of I&C (more than 20 MWh pa): on the highest end of EU-15 range	Domestic: lowest in EU-15		Domestic: lowest in EU-15	

2. Introduction

The current retail monitoring framework for the electricity and gas sectors began in 2009 and since then our retail market monitoring activities have been developed and enhanced, including our published reports. This series of annual reports was first published in 2010 and present an insight to the regulated gas and electricity retail sectors in Northern Ireland (NI). Since 2011 we have published more frequent information in the form of the Quarterly Transparency Reports (QTR's).

Both the annual and quarterly series of reports were conceived as living documents, which we have been progressively improving and adapting to the needs of our readers and stakeholders. These reports include a set of essential indicators used by other National Regulatory Authorities (NRAs) in Europe, such as: market shares, number of active suppliers, market activity and prices comparisons. As a result the annual and quarterly reports ensure a regular and structured flow of relevant information for our stakeholders. The ongoing review of the retail market and the regular production of these reports have enabled us to develop a useful base dataset of retail market information.

It is our intention to continue to expand our market monitoring of the retail energy sectors. This is because:

- Consumer protection is a key consideration when exercising our statutory powers, therefore we must monitor the markets, supplier behaviour and subsequent impacts on consumers in order to fulfil our principal objectives.
- The implementation of the Third Energy Package (IME3) in NI has further emphasised the need to protect consumers and reinforce energy retail market monitoring.

It is in this context that the UR is enhancing our market monitoring framework in the form of REMM¹ (Retail Energy Market Monitoring) project. The ultimate objective of REMM is to implement an effective and proportionate enhanced market monitoring framework for the electricity and gas supply sectors in Northern Ireland (NI). This is one of three flagship projects which combine to deliver our strategy on consumer protection and retail market regulation² and strike the appropriate balance between delivering effective competition and maintaining regulatory protection.

The REMM project will develop, consult on and implement a wide and comprehensive framework that will allow us to:

- monitor the NI electricity and gas retail markets more effectively;
- identify risks in our retail markets, and address them at an early stage;
- review supplier licence compliance and fulfilling our monitoring duties;

¹ UR Approach to Retail Energy Market Monitoring – an information paper. June 2014
http://www.uregni.gov.uk/uploads/publications/REMM_Information_Note.pdf

² UR Strategic Approach to Energy Retail Markets and Consumer Protection – an information paper. May 2014.
http://www.uregni.gov.uk/uploads/publications/Strategic_Overarch_Paper.pdf

- inform regulatory and energy policy; and
- continue to protect and inform consumers.

We hope to consult on the REMM framework in November 2014. Within the consultation paper we will include our proposals for reporting on the enhanced retail energy market monitoring framework. We envisage that the current reporting tools such as the QTR's will be the vehicle to do this and we welcome responses from our stakeholders to the consultation paper in this regard. Until the new framework is implemented and being reported on, we will continue to develop and publish the QTR's in the current format.

We thank our stakeholders for providing very helpful information to complete our retail monitoring reports, and look forward to their collaboration in the development of REMM. The information, and the accuracy of this information they provide, is vital to us and enables us to continue to maintain and expand the monitoring and reporting of the NI electricity and gas retail markets.

Although stakeholders will have the opportunity to comment on our proposals for REMM in the forthcoming consultation paper, as always, we welcome any comments and views in terms of how the current monitoring reports might be improved.

Comments in this respect should be sent to:

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2.1. Purpose of the document

As the number of participants to the market increase and competition develops, the need for monitoring and transparency strengthens. We will enhance the current energy market monitoring framework through REMM which, as mentioned earlier, will be publically consulted on later this year.

The purpose of this report is to deliver transparency for stakeholders and consumers, providing readers with readily accessible information on the evolution and performance of NI electricity and natural gas retail sectors.

The 2014 annual Energy Retail Report is structured as follows:

Chapter 1 – Summary of the main indicators presented in this report.

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

Chapter 3 – This section gives a high level summary of the evolution of the retail energy sectors towards competition.

Chapters 4 and 5 – These chapters include a set of basic indicators commonly used for monitoring purposes, and included in ERGEG guidelines³, such as number of customers/connections, consumption, switching figures, market shares by suppliers, etc. They also include information on NI domestic prices, and how they compare to other EU countries, and on electricity non-domestic prices compared with EU countries.

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

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

2.2. Data sources, methodology and accuracy

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

Basic retail indicators

The data related to electricity customer numbers, gas connections, consumption and market shares by suppliers are based on data provided by the network companies (NIE, PNGL and firmus energy) and gas suppliers.

The electricity switching analysis has been derived from NIE inputs, and gas switching data is provided by PNGL and gas suppliers.

Energy prices

The data on electricity and gas domestic prices in the EU is sourced from published DECC Quarterly Energy Prices⁴ and Eurostat⁵. NI domestic prices for electricity and gas are collated internally.

- NI electricity domestic prices are represented through the Power NI regulated tariff, applicable to 73% of the domestic electricity customers at the end of 2013⁶. By the end of Q2 2014, Power NI regulated tariff applied to 72% of the domestic customers in NI.
- Gas domestic prices in NI are represented through the SSE Airtricity regulated tariff in Greater Belfast and the firmus energy tariff for Ten Towns. SSE Airtricity regulated tariff was applicable to 73% of the domestic connections in the Greater Belfast area at the end of 2013. By the end of Q2 2014, SSE Airtricity regulated tariff

³ Guidelines of Good Practice on Indicators for Retail Market Monitoring for Electricity and Gas http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Customers/Tab1/E10-RMF-27-03_final%20GGP%20IRMM_12-Oct-2010.pdf

⁴ <http://www.decc.gov.uk/en/content/cms/statistics/publications/prices/prices.aspx>

⁵ Eurostat is the statistical office of the European Union (EU). Its task is to provide the EU with statistics at European level that enable comparisons between countries and regions http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

⁶ We note that other suppliers may offer discounts to these regulated tariffs in NI.

applied to 71% of the domestic connections in the Greater Belfast area. The firmus energy tariff applied to 100% of domestic customers in the Ten Towns area at the end of 2013.

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

The methodology used in these calculations is that one established by EU regulations to produce comparable energy prices every six months. For each calendar quarter we request the following information from active suppliers, split into annual electricity consumption size bands (as set up in Directive 2008/92/EC):

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

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

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

This methodology is effectively because it:

- avoids related confidentiality issues⁷ common to non-domestic prices, as information is represented in average unit prices for NI per consumption band, with no individual supplier detail. As an additional measure to avoid any impact on confidentiality, due to the very small number of both NI customers and suppliers in the supply of the two larger size bands (with annual consumption of between 20,000 and 69,999 MWh and annual consumption between 70,000 and 150,000 MWh), we have amalgamated these two categories into one.
- allows us to obtain data that is easily comparable to EU non-domestic electricity prices (which is published bi-annually by Eurostat).

Accuracy of information and methodology

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

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

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

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

3. Electricity and gas energy retail sectors

3.1. Structure of the Northern Ireland energy sector

The NI energy sector consists of the wholesale market (in the electricity sector), the networks and the retail market.

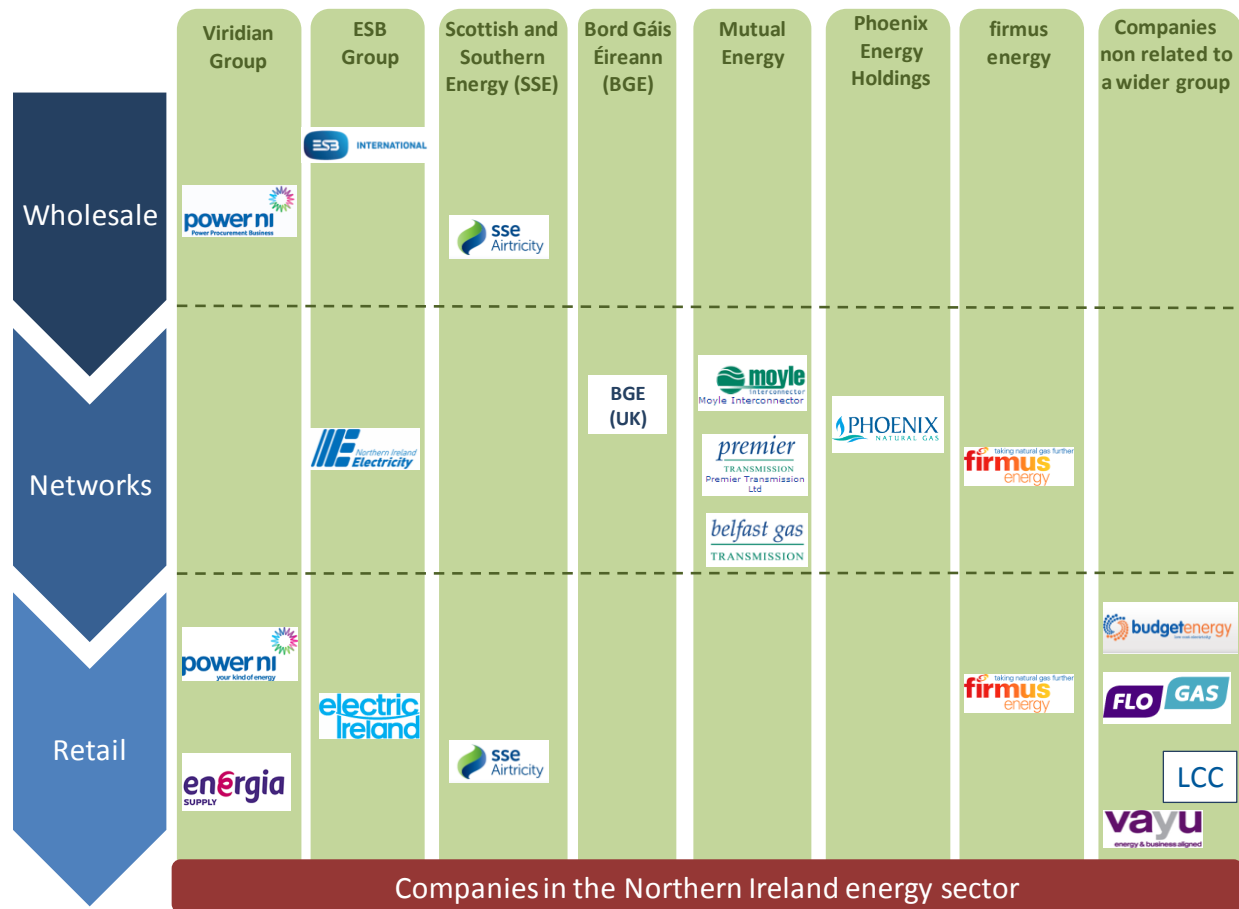
The electricity wholesale market is where the generators and suppliers trade with each other. Key regulatory matters in this area are electricity generator issues and licenses, SEM (Single Electricity Market), economic purchasing obligations, hedging and wholesale energy purchasing strategies.

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

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

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

Figure 1 Main agents in the energy sector in Northern Ireland



Source: Companies websites and UR

3.2. Development of competition

EU energy legislation requires Member States to achieve a “competitive, secure and environmentally sustainable market”. Energy Directives⁸ continue the pursuit of effective competition as an EU-wide policy goal and focus also on consumer rights and roles within retail markets ‘in order to allow consumers to take full advantage of the opportunities of a liberalised internal market’ in electricity and natural gas.

Our national statutory remit places a high value on effective competition so that consumers can achieve greater benefits from the energy markets. As a result we have actively pursued a policy of creating a fertile environment for greater electricity and gas supply⁹ competition.

Whilst there has been a demonstrable level of competition in the electricity market for business customers, household customers had no choice of electricity suppliers until June 2010. Until then, the only supplier in the domestic electricity sector was Power NI. SSE Airtricity entered this market in 2010 offering supply first to the customers paying by credit, and subsequently a

⁸ Directive 2009/72/EC concerning common rules for the internal market in electricity; and Directive 2009/73/EC concerning common rules for the internal market in natural gas.

⁹ The UR currently regulates the electricity and natural gas supply markets; not the home heating oil market.

year later, to the keypad or prepayment sector of the market. Since then, more suppliers have entered the domestic electricity market, and there are now five domestic suppliers.

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

The gas market in the Greater Belfast and Larne area has been open to competition since 2007 for all customers. In this distribution Licensed Area there are currently four active gas suppliers in the non-domestic sector: SSE Airtricity, firmus energy, VAYU and Electric Ireland.

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

In the Ten Towns gas market¹⁰ (outside of the Greater Belfast and Larne area), firmus energy retained the exclusive rights to supply gas to all customers until October 2012, when this area opened to competition for the large non-domestic customers¹¹. The remainder of the market (small and medium non-domestic customers and domestic customers) will open to competition from April 2015.

Table 2 shows when competition effectively started in each of the energy market segments, and details on when the areas still supplied by one incumbent supplier will be open to competition.

¹⁰ Antrim, Armagh, Ballymena, Ballymoney, Banbridge, Coleraine, Craigavon, L'Derry, Limavady and Newry.

¹¹ http://www.uregni.gov.uk/uploads/publications/2011-02-21_Decision_paper_firmus_exclusivity.pdf

Table 2 Energy Competition Opening

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

Source: UR

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

We have started a review of the effectiveness of competition¹⁶ to establish the basis for assessing the current state of competition in NI. The objective of the review is to highlight areas that may require intervention, further guidance for market participants, monitoring frameworks or relaxation/removal of regulations and retail price controls as the sector opens up. The review is another one of three flagship projects which combine to deliver our strategy on consumer protection and retail market regulation. It will provide the context for understanding the sentiment of different consumer groups and how these are encouraging or preventing wider market effectiveness through collecting and analysing quantitative and qualitative data.

¹² The Greater Belfast area, including Holywood, Bangor, Newtownards, Belfast, Newtownabbey, Carrickfergus, Lisburn and Larne

¹³ Airtricity Gas Supply (AGS) bought the formerly incumbent supplier, called Phoenix Supply Ltd (PSL) in June 2012. In January 2014, the Airtricity Gas Supply changed its name, and it's now called SSE Airtricity Gas Supply.

¹⁴ To note that energia do not have gas customers from October 2013.

¹⁵ In 2005 firmus energy was awarded a licence to develop the natural gas network in 10 towns across NI, from L'Derry to Ballymena, and from Antrim to Newry.

¹⁶ Review of the Effectiveness of Competition in the Northern Ireland Retail Market – an information note. July 2014. http://www.uregni.gov.uk/uploads/publications/Info_Note_-_Effectiveness_of_Competition_in_NI.pdf

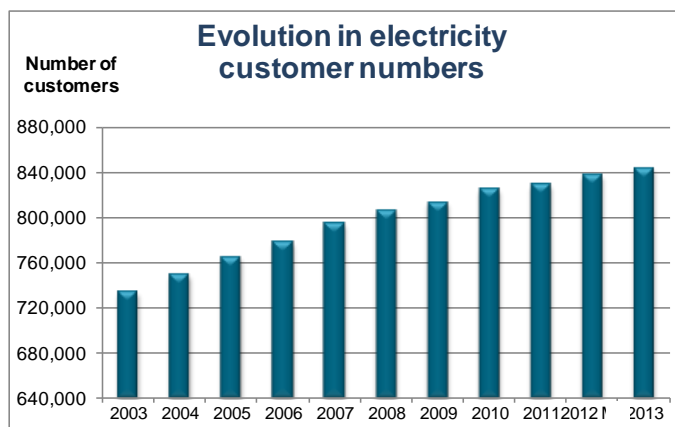
4. Electricity

4.1. Customer numbers

By the end of 2013, there were more than 843,000 electricity customers in NI. Approximately 93% of these are domestic customers, while the non-domestic customers are around 7% of the total NI electricity customer base. The evolution in the number of customers per calendar year is shown in Figure 2.

The breakdown of customer numbers at the end of 2013 by market segment is shown below, in absolute and relative figures. Within the domestic sector, the split shows that 39% of customers use keypad meters, while 61% are standard credit customers. In the non-domestic sector the largest number of customers is in the Small and Medium Enterprises (SME) category, which includes businesses with demand below 1MW per annum. This category further splits into those who consume less and more than 70 kVA (92% and 8% respectively), which aligns with the Statement of Charges for Use of the Electricity Distribution System¹⁷. The LEU customers represent around 3% of the non-domestic electricity market.

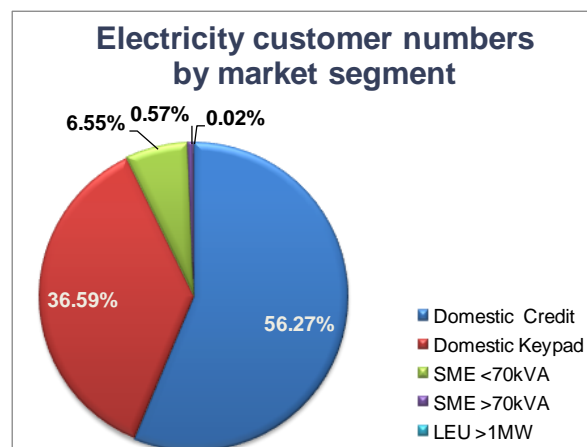
Figure 2 Northern Ireland electricity customers



Source: NIE

Figure 3 Customer numbers by market segment

2013	Customer Numbers
Domestic Credit	474,421
Domestic Keypad	308,438
SME <70kVA	55,178
SME >70kVA	4,814
LEU >1MW	192
Total	843,043

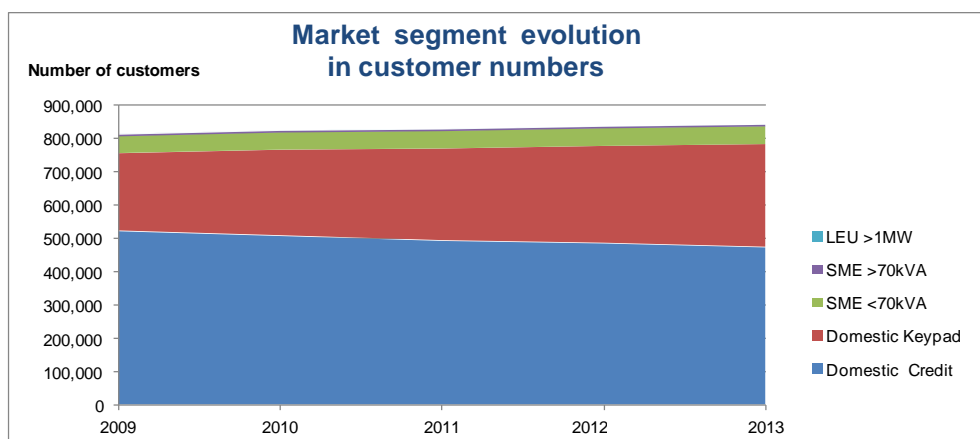


Source: NIE

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

Figure 4 shows the evolution in customer numbers since 2009 by customer segment. The percentages by market segment have remained relatively stable over the last years, with a progressive increase of keypad customers. The percentage of keypad customers was 39% at the end of 2013, while it was 37% at the end of 2012. This method of paying for energy is a popular choice for NI customers, as they can pay for their energy upfront and the information available on the display unit helps customers to manage their usage and control their costs.

Figure 4 Evolution in customer numbers by market segments



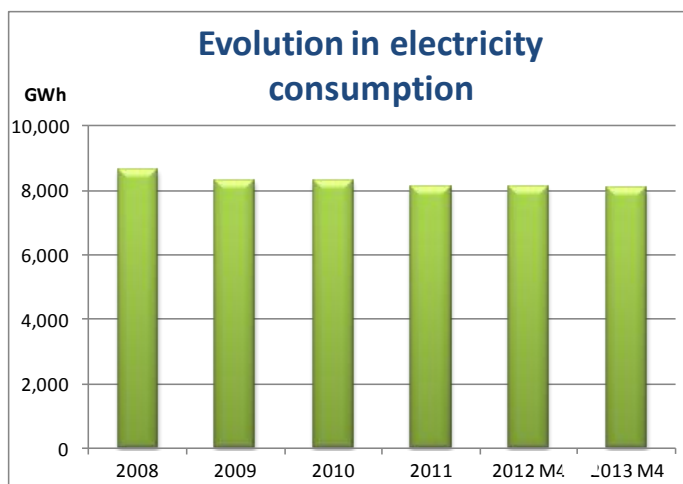
Source: NIE

4.2. Consumption

NI total electricity consumption trend is shown in Figure 5. Traditionally, electricity demand in NI increases each year. However, since 2008, the trend shows smaller increases and even slight decreases, perhaps attributable to poor economic conditions.

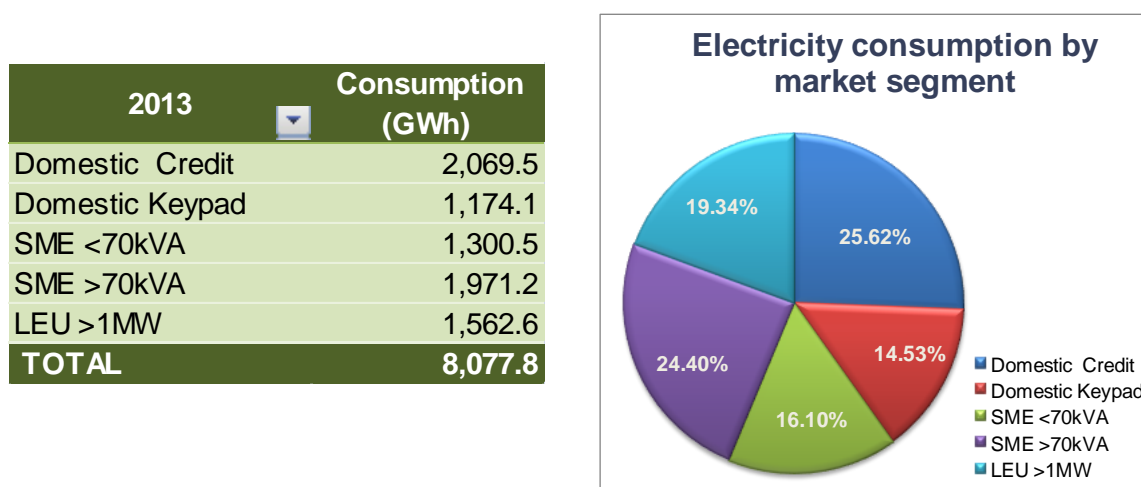
A breakdown of consumption between the different market segments in 2013 is shown in Figure 6. During this year, the electricity consumption was 8,078 GWh, split 40% in the domestic sector and 60% in the non-domestic sector. Within the non-domestic sector, the consumption is similarly spread across the three different sub-segments. The SME <70 kVA segment accounts for 16% of the NI total volume, SME>70 kVA consumes 24% and LEU accounts for 19%.

Figure 5 Evolution in electricity consumption



Source: NIE

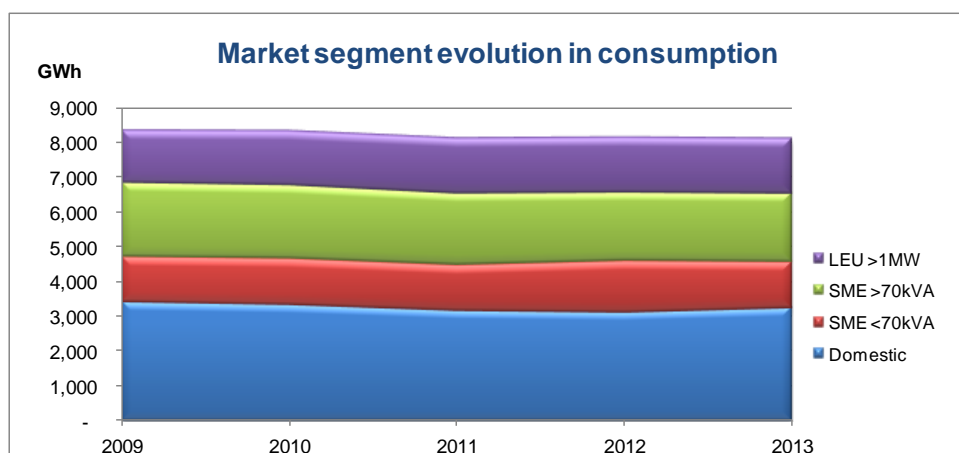
Figure 6 Consumption by market segment



Source: NIE

The trend in annual consumption by market segment is reasonably stable throughout the years, as can be seen in Figure 7. Since 2009, around 40% of the total NI consumption is domestic. The non-domestic market consumes around 60% of the total NI volume. Within this sector, since 2009, the SME<70 kVA segment accounts for 15-18%, SME>70 kVA consumes 24-26% and LEU maintains its annual consumption share around 18-19%.

Figure 7 Evolution in customer numbers by market segment



Source: NIE

4.3. Active suppliers

There are 14 electricity supply licences currently granted and, as per the prior year, only eight suppliers were active in the electricity retail market at the end of 2013.

The active electricity suppliers, and the markets they operate in are listed in Table 3 below. These suppliers all operate in the non-domestic electricity market, while five of them are also active in the domestic sector.

Table 3 Active suppliers in the electricity supply market

Suppliers	Domestic sector	Non-domestic sector
Power NI	√	√
SSE Airtricity	√	√
Energia		√
Electric Ireland	√	√
firmus energy	√	√
Budget Energy	√	√
Vayu		√
LCC		√

Source: UR and NIE data

4.4. Methods of payment

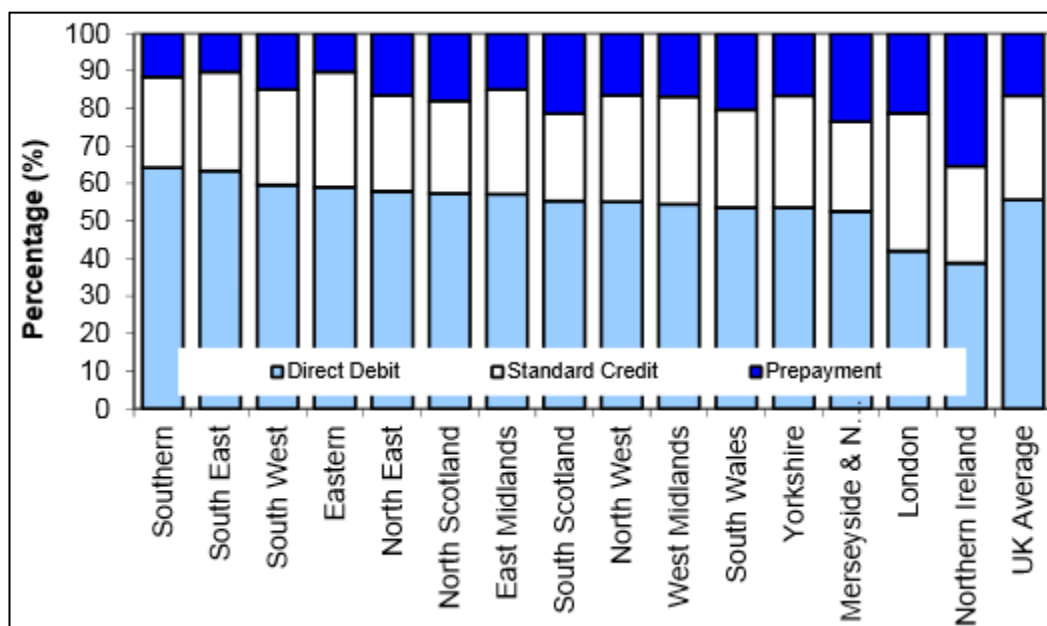
All electricity suppliers are obligated, under their supply licence, to offer their domestic customers a choice of three payment methods¹⁸. Therefore, domestic customers in NI are able to avail of one of the following methods to pay for their electricity:

- Prepayment (or a pay-as-you-go meter) where customers can top-up their electricity as they foresee their short-term consumption. This is also referred to as having a keypad meter.
- Standard credit, where for example the supplier charges the customer each quarter with an amount equal to the quarterly bill.
- Direct debit, where a direct debit mandate is established instructing the supplier to debit the customer's bank account for a fixed amount at regular intervals, based on the expected annual cost of the bill or on estimated reads.

¹⁸ Paragraph 11 in condition 27, on Terms and Conditions of Electricity Supply Contracts, states that: "The Licensee shall ensure that its standard terms and conditions provide Domestic Customers with a choice of payment methods, including as a minimum making payment: (a) in arrears (at such frequency as is set out in the terms and conditions); (b) by direct debit (at such frequency as is set out in the terms and conditions); and (c) in advance through a prepayment meter.

Figure 17 below shows the UK regional variation of payment method for standard electricity.

Figure 8 Regional variation of payment method for standard electricity (March 2014)



Source: DECC. Quarterly Energy Prices, June 2014

NI has the highest percentage of prepayment customers in the UK, being around 39% at the end of 2013 (37% in 2012), and consequently the lowest percentage of customers paying by direct debit. The prepayment option is popular in NI as it allows customers to pay for energy as it is consumed which helps household short term budgeting. In many circumstances the prepayment alternative is also favoured by the supply companies.

The prepayment method is also the slightly more expensive option in England, Wales and Scotland, whilst in Northern Ireland the standard credit payment method is more expensive.

4.5. Market shares

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

Consequently, the number of active suppliers and their associated market shares are considered, alongside other indicators, as relevant indicators of the evolution of competition.

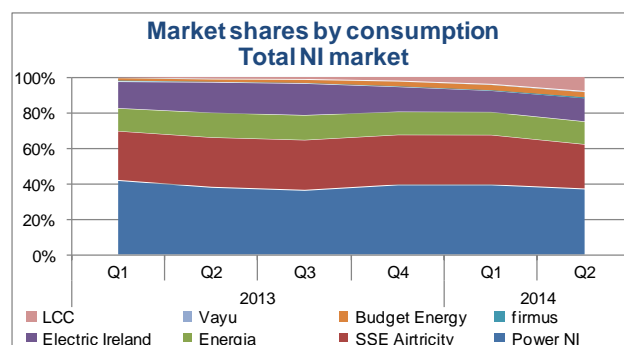
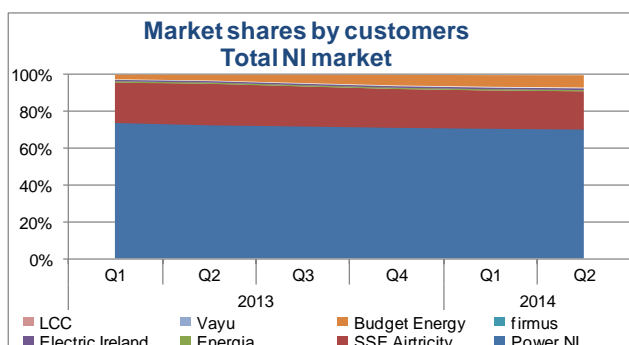
The tables below show absolute and relative market shares by customer numbers at the end of 2013, and by annual consumption over 2013¹⁹, per market segment. The graphs show the

¹⁹ 2013 annual figures relate to NIE reviewed data. Note that these figures vary from the corresponding QTR's, as it relates to data NIE review and refresh of the data, four months after the relevant period, as opposed to data obtained right after the relevant period

quarterly evolution in market shares by both customer number and consumption, in each of the electricity market segments.

Figure 9 Total NI retail electricity market shares, by customer numbers and consumption

2013 Total NI market	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	602,243	71.44%	3,130.2	38.75%
Airtricity	175,601	20.83%	2,265.4	28.05%
Energia	7,313	0.87%	1,092.9	13.53%
Electric Ireland	7,025	0.83%	1,304.4	16.15%
firmus	292	0.03%	56.1	0.69%
Budget Energy	50,035	5.94%	139.1	1.72%
Vayu	5	0.00%	3.3	0.04%
LCC	529	0.06%	86.4	1.07%
Total	843,043	100%	8,077.8	100%



Source: NIE

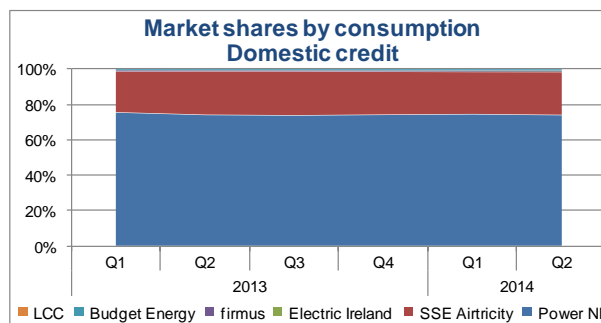
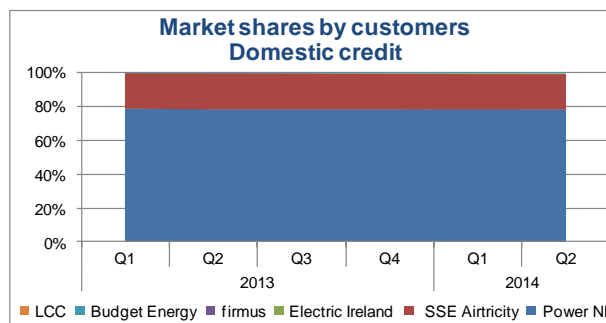
In 2013, there were eight active suppliers in the electricity market. Four of those suppliers had a market share higher than 10% of the whole electricity retail market (in terms of volume). The market share of the three largest suppliers was 83% in total. This figure implies that the market in 2013 remains reasonably concentrated.

Nonetheless Power NI's market share has been diminishing progressively. In terms of customer numbers, Power NI's share was 71% at the end of 2013 compared to 76% at the end of 2012. In 2013 the next larger supplier (by customer numbers) was SSE Airtricity, with a share of almost 21%.

In terms of consumption, Power NI's total market share in 2013 was around 39% (42% in 2012) while SSE Airtricity, Electric Ireland and Energia enjoyed shares of 28%, 16% and 14%.

Figure 10 Domestic credit market shares by customer numbers and consumption

2013 Domestic credit	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	370,693	78.14%	1,543.1	74.56%
Airtricity	99,815	21.04%	501.2	24.22%
Energia	0	0.00%	0.0	0.00%
Electric Ireland	550	0.12%	1.2	0.06%
firmus	246	0.05%	10.0	0.48%
Budget Energy	3,097	0.65%	13.2	0.64%
Vayu	0	0.00%	0.0	0.00%
LCC	20	0.00%	0.8	0.04%
Total	474,421	100%	2,069.5	100%



Source: NIE

Data for customer numbers and consumption in the domestic credit market are presented in Figure 10, which reflects the same trends in terms of market share described earlier.

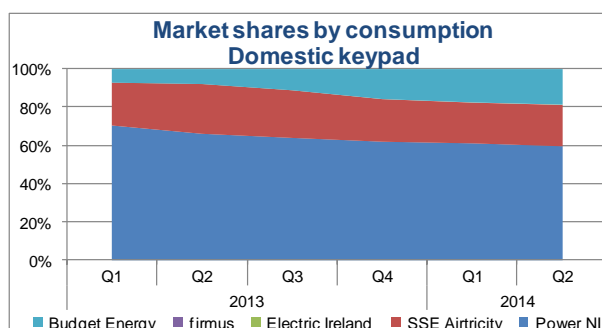
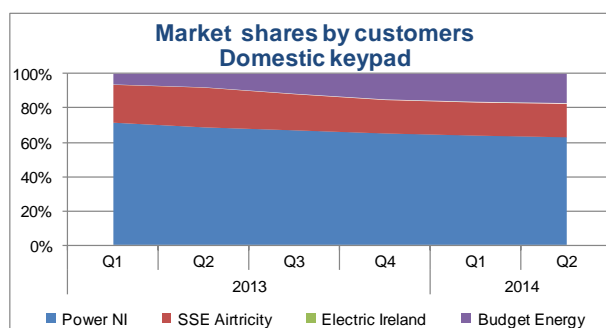
Though the domestic credit market is still very concentrated, Power NI's share has been diminishing since the start of effective competition in the domestic market, in June 2010. As shown in Figure 10, by the end of 2013, 78% of the domestic credit customers were being supplied by Power NI, in comparison to almost 80% by the end of 2012.

Power NI retains a large share of the market in terms of volume, with around 75% of market share by consumption (almost 80% in 2012). Whilst SSE Airtricity retains 24% share in the domestic credit sector.

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

Figure 11 Domestic keypad market shares by customer numbers and consumption

2013 Domestic keypad	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	201,738	65.41%	770.6	65.63%
Airtricity	59,751	19.37%	279.0	23.76%
Energia	0	0.00%	0.0	0.00%
Electric Ireland	155	0.05%	0.6	0.05%
firmus	0	0.00%	0.0	0.00%
Budget Energy	46,794	15.17%	123.9	10.56%
Vayu	0	0.00%	0.0	0.00%
LCC	0	0.00%	0.0	0.00%
Total	308,438	100%	1,174.1	100%



Source: NIE

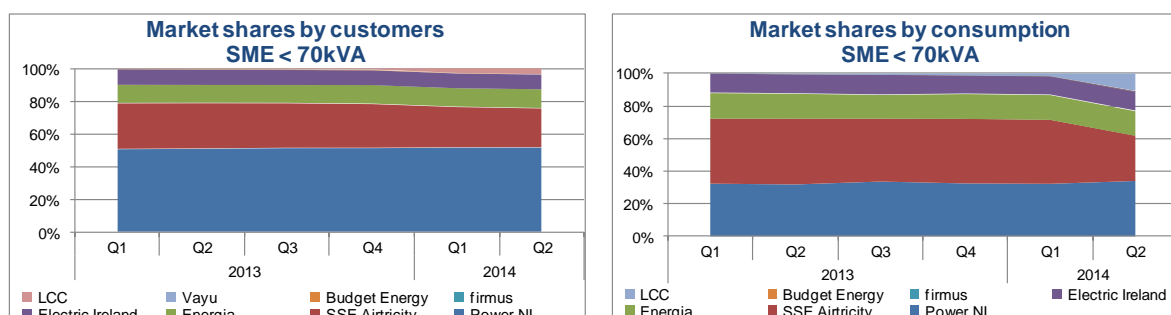
Competition in the prepayment electricity sector began in May 2011, when SSE Airtricity launched tariff offerings to keypad customers. A few months later, Budget Energy entered the domestic market focusing mainly on acquiring keypad customers. There remains a relative high degree of concentration in the keypad market, where Power NI supplied 65% of the customers in 2013. The level of concentration in this sector of the market is changing at a faster rate than in the credit segment, as Power NI's share (in terms of customer numbers) was 76% at the end of 2012.

There has been a resultant increase in customer shares for SSE Airtricity and Budget Energy in the keypad market. By the end of 2013, SSE Airtricity held 19% of the keypad customers (17% in 2012) and Budget Energy had 15% (6% in 2012).

In terms of customer shares based on consumption, Power NI's share of the keypad market in 2013 was around 66%, Airtricity's was 24% and Budget Energy had acquired 11%.

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

2013 SME <70kVA	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	28,506	51.66%	439.8	33.82%
Airtricity	14,836	26.89%	504.5	38.79%
Energia	6,243	11.31%	194.2	14.94%
Electric Ireland	5,124	9.29%	149.9	11.53%
firmus	18	0.03%	1.3	0.10%
Budget Energy	141	0.26%	1.9	0.14%
Vayu	0	0.00%	0.8	0.06%
LCC	310	0.56%	8.1	0.63%
Total	55,178	100%	1,300.5	100%



Source: NIE

Competition in the non-domestic electricity market is much more mature than in the domestic sector.

There were eight active suppliers in the small I&C (less than 70kVA) market in 2013, of which four of these had a share of more than 10% by volume: Power NI, SSE Airtricity, Energia and Electric Ireland.

Energia is owned by the same ultimate controllers as Power NI, which is relevant when considering market power. The combined market share in 2013 for the suppliers who belong to the Viridian Group (Power NI and Energia), was 63% by customer numbers, and 49% by consumption in the SME < 70 kVA market segment. These shares were very similar in 2012.

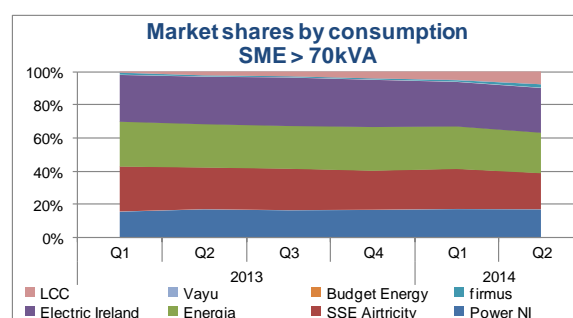
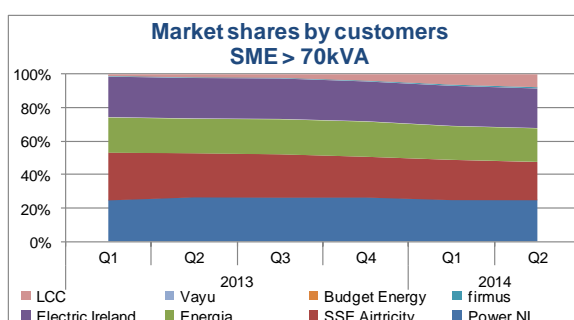
In 2013 there were eight active suppliers in the I&C segment where customers consumed over 70 kVA. Absolute and relative shares for each of these suppliers are shown in Figure 13 below.

Over 2013, the shares of the four main suppliers (Power NI, SSE Airtricity, Energia and Electric Ireland) are broadly similar in terms of customer numbers, ranging from 21% to 27%. This interval has a wider spread when referring to the market shares by consumption (ranging from 15% to 29%) due to the fact that customer usage is much higher in this category.

LCC has enjoyed a notable increase in customers in 2013. In terms of customer numbers they have 4% of the market in 2013 (0.5% in 2012) and 2.46% market share by consumption (0.07% in 2012).

Figure 13 SME > 70kVA market shares, by customer numbers and consumption

2013 SME >70kVA	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	1,279	26.57%	300.8	15.26%
Airtricity	1,147	23.83%	502.6	25.50%
Energia	1,021	21.21%	531.7	26.97%
Electric Ireland	1,146	23.81%	568.1	28.82%
firmus	25	0.52%	17.0	0.86%
Budget Energy	3	0.06%	0.0	0.00%
Vayu	5	0.10%	2.5	0.13%
LCC	188	3.91%	48.4	2.46%
Total	4,814	100%	1,971.2	100%



Source: NIE

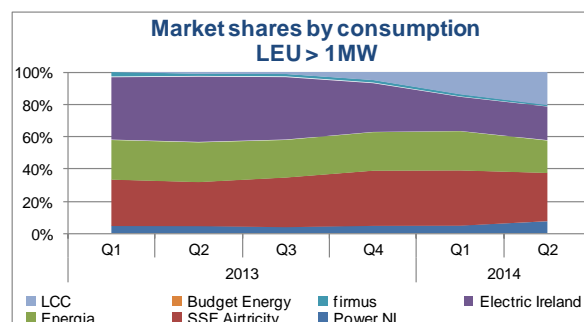
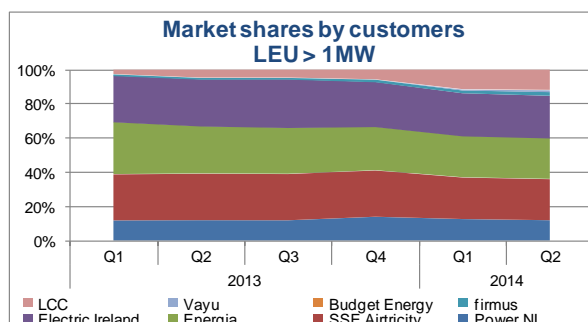
In 2013, the LEU market segment represented 0.02% of the total customer base in NI, with 192 customers. Although this is a small amount of customer numbers, their total consumption was nearly a fifth (19%) of the total NI electricity consumption in that year.

There were six active suppliers in this market segment in 2013. Three of the suppliers, SSE Airtricity, Energia and Electric Ireland, together have shares of over 25% based on customer numbers. The shares of those three suppliers in terms of volume range from 23% to 37%. The rest of the active suppliers in this segment hold a smaller share by volume (Power NI hold 5% and firmus energy hold around 2%).

LCC share has notably grown since last year, reaching almost 6% (0.5% in 2012) by customers and almost 2% in terms of volume (0.03% in 2012).

Figure 14 LEU > 1 MW market shares, by customer numbers and consumption

2013 LEU >1MW	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	27	14.06%	76.0	4.86%
Airtricity	52	27.08%	478.2	30.60%
Energia	49	25.52%	367.0	23.49%
Electric Ireland	50	26.04%	584.7	37.42%
firmus	3	1.56%	27.8	1.78%
Budget Energy	0	-	0	-
Vayu	0	-	0	-
LCC	11	5.73%	29.0	1.86%
Total	192	100%	1,562.6	100%



Source: NIE

4.6. Switching activity

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

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

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

Figure 15 shows the changes of supplier²⁰ (CoS's) on a monthly basis in the whole market in NI, for 2013 until the most available figure in 2014, split by domestic and non-domestic market.

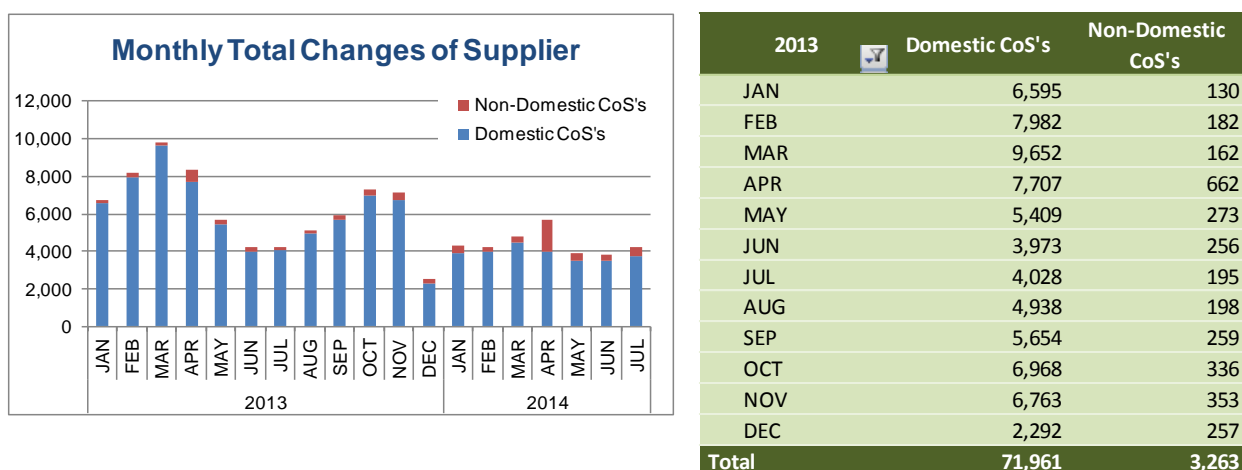
Monthly switches are also shown for 2013.

There were 75,224 total CoS's in the market in 2013. Switching activity in the electricity domestic sector has decreased from previous levels. The number of domestic CoS's (71,961) has decreased significantly compared to the annual domestic CoS's in 2012 (103,177).

Likewise, the switching activity has also decreased in the non-domestic sector. In 2012 6,031 non-domestic customers changed supplier, whilst in 2013 3,263 non-domestic customers switched.

The NI electricity switching rate for 2013 (for both domestic and non-domestic) – measured as the number of CoS's in 2013 by the number of customers at the end of 2013 – was 9%. This is a decrease from a 13% switching rate in 2012.

Figure 15 Domestic and non-domestic electricity switches



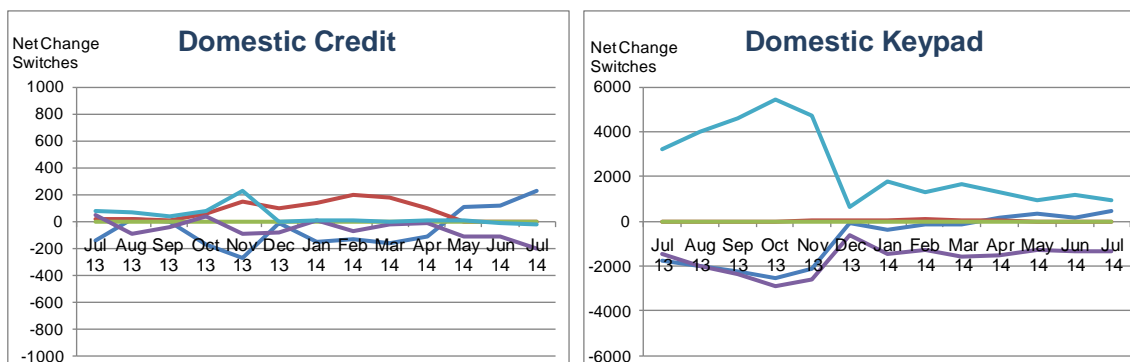
Source: NIE

²⁰ Changes of Supplier (CoS's) reflect the gains less losses of different suppliers in the market. They do not include new registrations.

From the total CoS's in 2013, 96% were domestic customers, while the remaining 4% related to non-domestic switches. The figures below analyse the trend of switching across the different market segments and figures 15 and 16 show the net change of electricity switches (gains less losses) in the domestic and non domestic sector.

In the domestic sector these are split by credit and prepayment options (anonymised by supplier) from January 2013 to the last available figures of 2014. As in previous years, the prepayment sector has been more active than the credit sector in terms of switching since the start of 2013. However, as in the domestic credit sector, the level of prepayment activity has also decreased from December 2013.

Figure 16 Evolution in electricity switching activity by domestic market segments

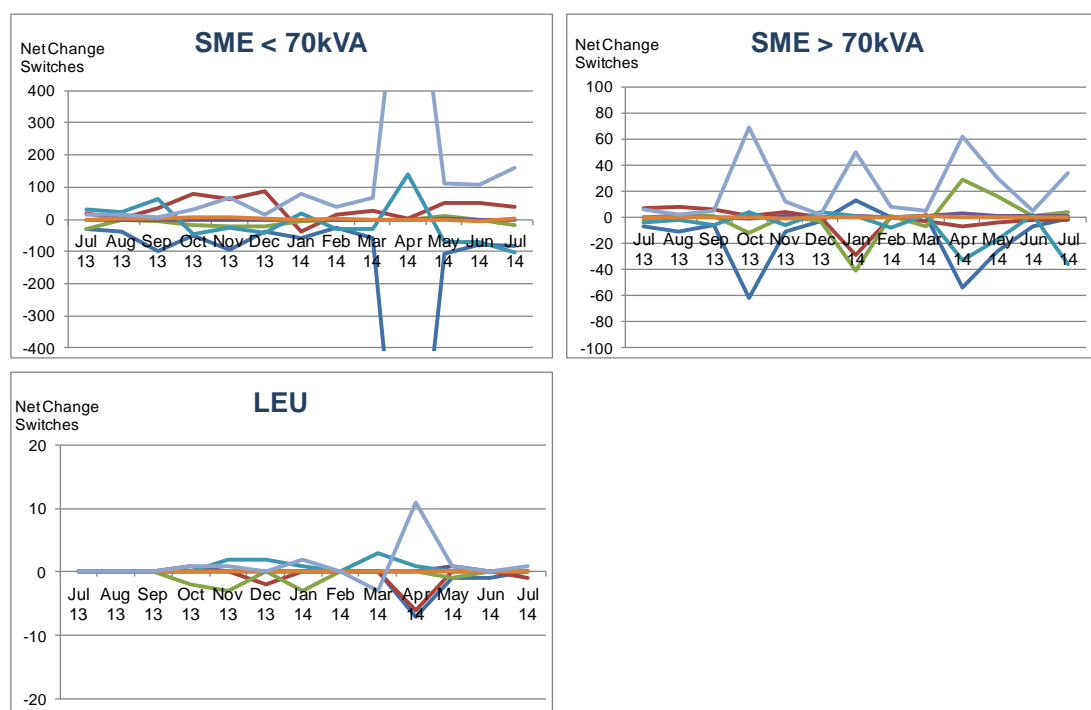


Source: NIE

Non-domestic CoS's accounted for approximately 4% of total CoS's in NI in 2013. The switching activity in the electricity non-domestic market is quite diverse and depends not only on the specific market segment, but also on the number of customers in those segments and the timing of tender reviews. The SME<70kVA category accounts for 80% of the non-domestic CoS's (this is the largest I&C category by customer number), while the other two segments, SME>70kVA and LEU, represent 20% of the non-domestic CoS's.

The non-domestic switching rate for 2013 was 5%, compared to 10% for 2012. Figure 17 illustrates that the smaller end of the sector (SME's) has the most switching activity, similar to 2012.

Figure 17 Evolution in electricity switching activity by non-domestic market segments



Source: NIE

4.7. Electricity prices

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

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

The new PowerNI price control was put in place following consultation in April 2014, for a period of three years scheduled to run from April 2014 until March 2017. Within that price control, the UR decided to reduce the PowerNI regulated threshold to 50 MWh annual consumption in the non-domestic market. There was no change to the scope and coverage of the domestic market where all the PowerNI tariffs are regulated.

4.7.1. Electricity domestic prices

For consumers who consume less than 50,000 units (equal to 50 MWh) per year, Power NI publishes a range of tariffs, which have to be approved by the UR. Other active suppliers in the market compete for customers against these published tariffs.

We take an active role in scrutinising and approving these retail tariffs in consultation with the Consumer Council and Department of Enterprise. This is when the maximum final price is decided that domestic customers of PowerNI would pay for their electricity. This process is normally carried out on a yearly basis, unless there is a need to increase or decrease tariffs mid-year. The outcome of the most recent tariff review was no change to the PowerNI

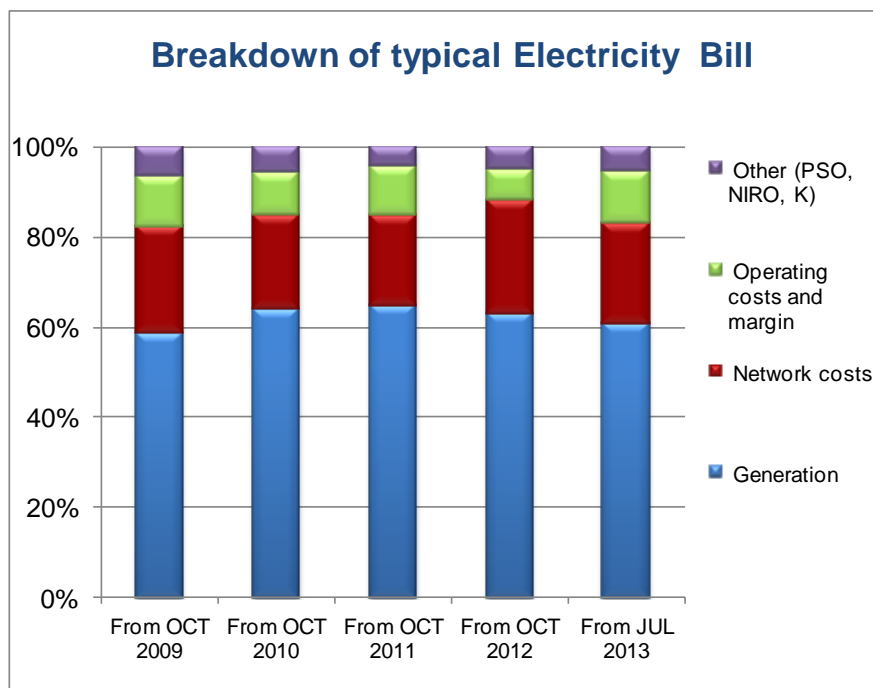
regulated tariffs for the 1st October 2014. The UR continues to monitor wholesale costs on a monthly basis and will act as appropriate.

Electricity retail tariffs, in terms of what customers pay, are made up of a number of components that are subjected to regulatory scrutiny. Several of these components, such as market operator charges, System Support Service (SSS) charges, PSO levy, use of system charges, transmission and distribution charges, are common across all suppliers. As a result, the customer must pay these components regardless of who their supplier is.

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 include these cost components of the tariffs before setting the final price to sell to customers.

The relative importance of the various elements that make up final bills is shown in Figure 18, which illustrates the percentage components of the electricity bill for regulated customers. It specifically relates to the required revenues of Power NI for all of its regulated customers (for the last tariff years). Note the relative importance of generation/wholesale costs in the final regulated prices, which account for more than 60% as an annual average every year from October 2009. The costs of the actual supply companies themselves (operating costs and margin) average around 10%, 12% in the last tariff reviews (applied from 1 July 2013).

Figure 18 Make-up of regulated electricity bill in NI



Source: UR and Power NI

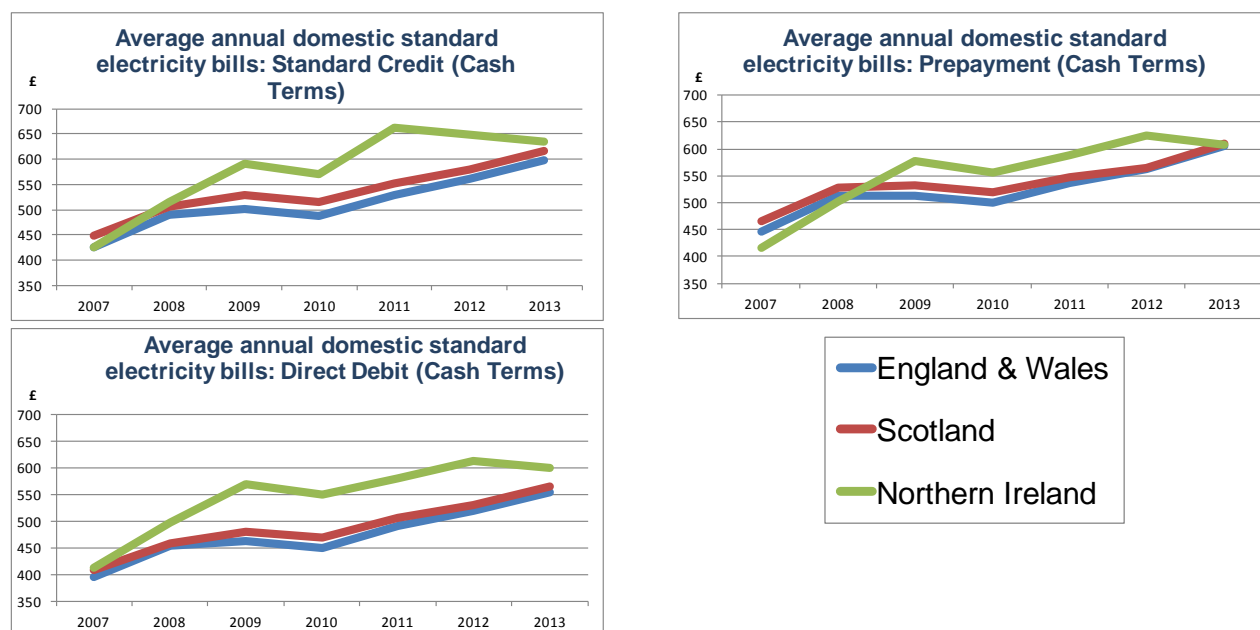
Domestic electricity prices comparison with GB

Historically, electricity prices in NI have tended to be higher than GB. This differential could be due to higher energy transport costs, economies of scale in NI, additional cost of long-term legacy generation and associated contracts (not present in GB markets), or the different fuel mix in GB (i.e. NI has a reliance on gas while GB's generation mix is spread between nuclear, gas and coal).

Figure 19 shows the difference in domestic prices between NI and GB, split by England, Wales, Scotland and NI. The charts relate to the average annual standard bills²¹ for a typical electricity domestic customer (assuming an annual consumption of 3,800²² kWh and including VAT) by different payment methods.

In 2013, the standard credit option was more expensive in NI than in the rest of the UK, followed by the direct debit payment method. Historically the prepayment option was also more expensive in NI, however average prepayment prices here are now at similar levels for all regions in the UK.

Figure 19 Average annual domestic standard electricity bills for UK countries £



Source: DECC, Quarterly Energy Prices

²¹ These bills relate to the total amount charged during the year, rather than a bill based on the latest prices.

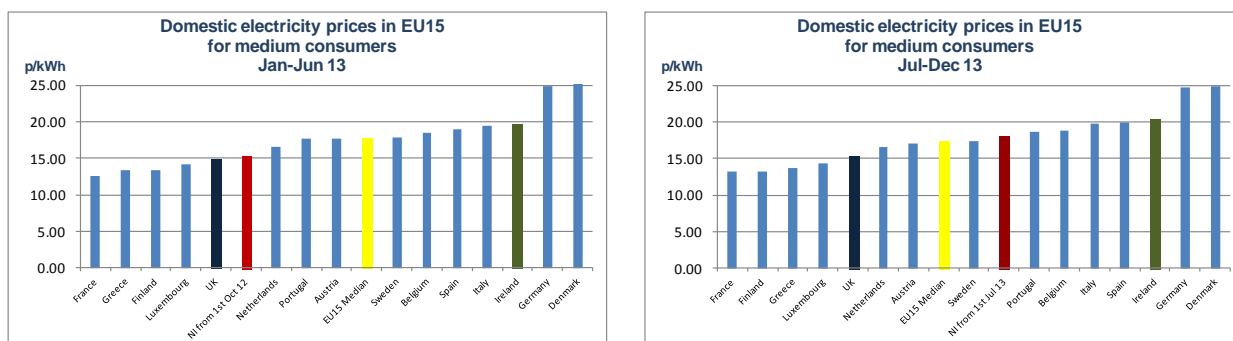
²² Note that the estimated domestic average annual consumption has increased from 3,300kWh to 3,800kWh due to changes made by DECC in 2013.

Domestic electricity prices comparison with EU

Figure 20 compares Power NI regulated tariff with unit prices for other countries in Europe, (including taxes). For the first half of year 2013, the NI regulated tariff was 15.31p/kWh and was below the EU15 median, whilst for the second half of the year, it was 18.04p/kWh and above the EU median.

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

Figure 20 Domestic electricity price comparison at EU level (inc VAT) for Jul-Dec 2013



Source: Power NI and DECC (Eurostat)

4.7.2. Electricity non-domestic prices

At present, all business customers who consume more than 50 MWh per year can obtain an individual quotation from NI active electricity suppliers. Retail electricity prices are individually agreed between customers and suppliers. Many of these customers, especially the larger sized customers, follow a tender exercise and subsequently agree individual contracts with their supplier, often with unique terms and conditions (including price). Due to the bilateral nature of the agreement, electricity non-domestic prices are not published by suppliers.

Due to this data gap over the last few years, we have been working on the collection and analysis of NI average electricity non-domestic prices per consumption bands, (and comparison with EU members). NI electricity prices comparisons for the non-domestic sector have now been available in our reports since 2013, and these comparisons are regularly updated in each of the QTR's.

When calculating non-domestic electricity average prices from NI suppliers' inputs, we follow DECC's format and methodology. As a result, we can easily compare NI prices to those collected and published by DECC and Eurostat²³ per Member State.

We obtain the base figures quarterly from suppliers, and calculate a NI quarterly revenue/value earned per EU annual consumption band. We then calculate quarterly average revenue per unit per size band (which we refer to as unit prices). We do not receive from suppliers the actual price paid by customers across each size band. Instead, we calculate the *revenue collected per unit* in that particular size category. Also, we average the two relevant quarters to

²³ <http://epp.eurostat.ec.europa.eu/portal/page/portal/energy/data/database>

obtain six-month period figures, so that we can compare NI data with those published by Eurostat for EU members.

To avoid confidentiality issues (in market sectors where there are a very small number of customers and suppliers involved) we also aggregate the data in the form of ‘averages’ for the total of NI per EU customer size bands, and we amalgamate the two largest categories of consumption.

Consumption size bands per the EU categorization are in Table 4, including the percentages of NI non-domestic customers at the end of Q4 2013 in each of those categories, by customer number and by consumption.

Table 4 Consumption size bands for non-domestic electricity customers

Size of consumer	Annual consumption bands (MWh)	% of I&C customers	% of I&C consumpt.
Very small	0 - 20	65.82%	7%
Small	20 - 499	32.32%	37%
Small/Medium	500 - 1,999	1.35%	16%
Medium	2,000 - 19,999	0.47%	28%
Large + Very Large	20,000 - 150,000	0.03%	13%

Source: NI suppliers and UR calculations

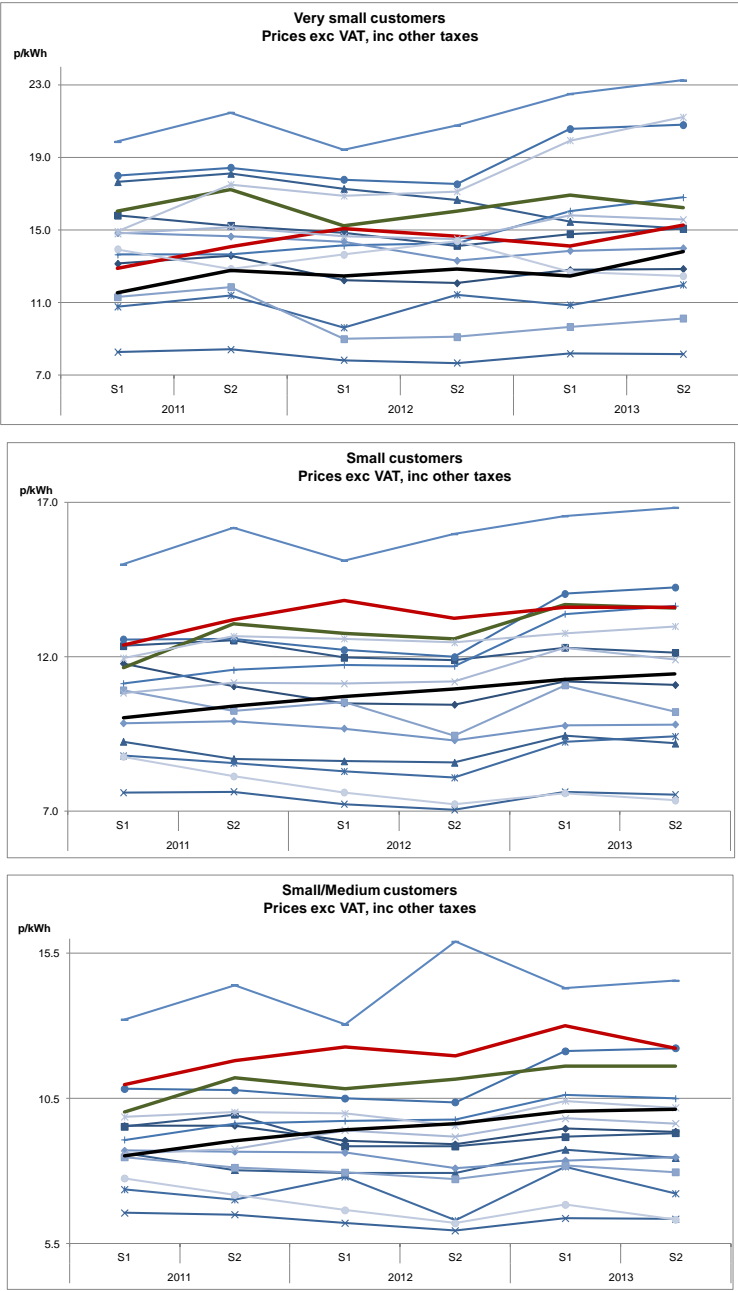
Table 4 shows that NI non-domestic customers are very heavily grouped in the EU-standardised smallest size band (consuming less than 20 MWh per annum). At the end of 2013, these customers accounted for 66% of the total customers in the I&C sector, while they represent approximately 7% of the total I&C consumption (similar levels to 2012).

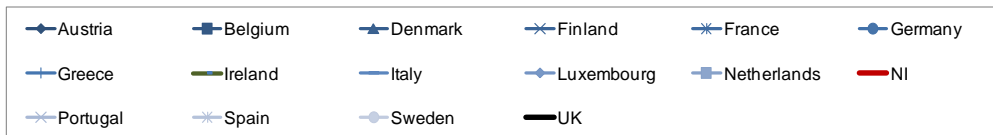
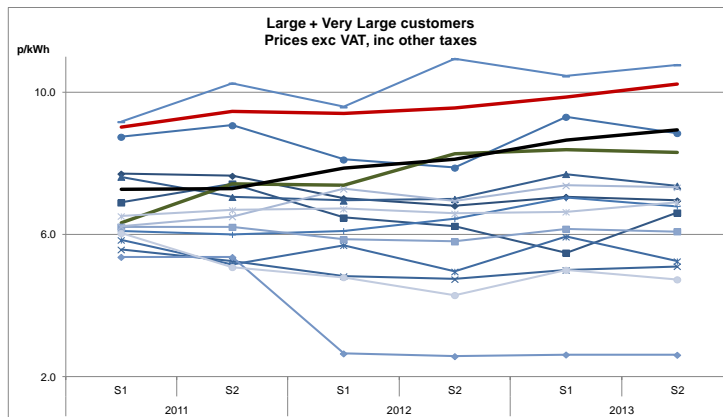
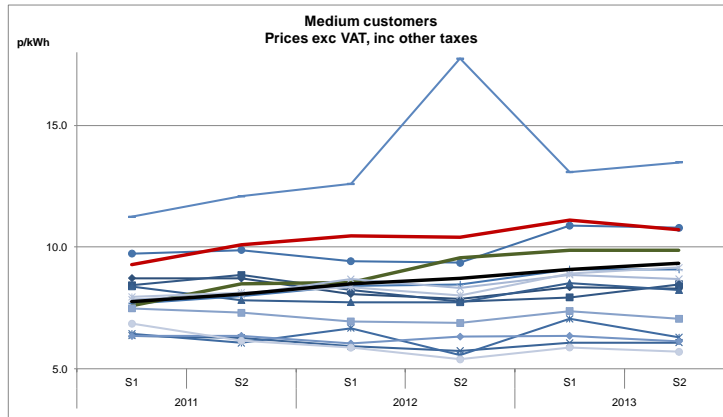
The graphs in Figure 21 show non-domestic average unit prices trends, including Climate Change Levy (CCL)²⁴ but excluding VAT. As VAT is a refundable expense for many businesses, excluding VAT means that the values are more representative of the actual energy costs for businesses.

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

²⁴ The Climate Change Levy (CCL), is a tax on electricity, gas and solid fuels delivered to non-domestic consumers. Its objective is to encourage businesses to reduce their energy consumption or use energy from renewable sources. The rate changes every year. From 1 April 2012, it is 0.509p/kWh.

Figure 21 NI and EU members non-domestic electricity prices since Jan 2011





Source: NI electricity suppliers and Eurostat

5. Gas

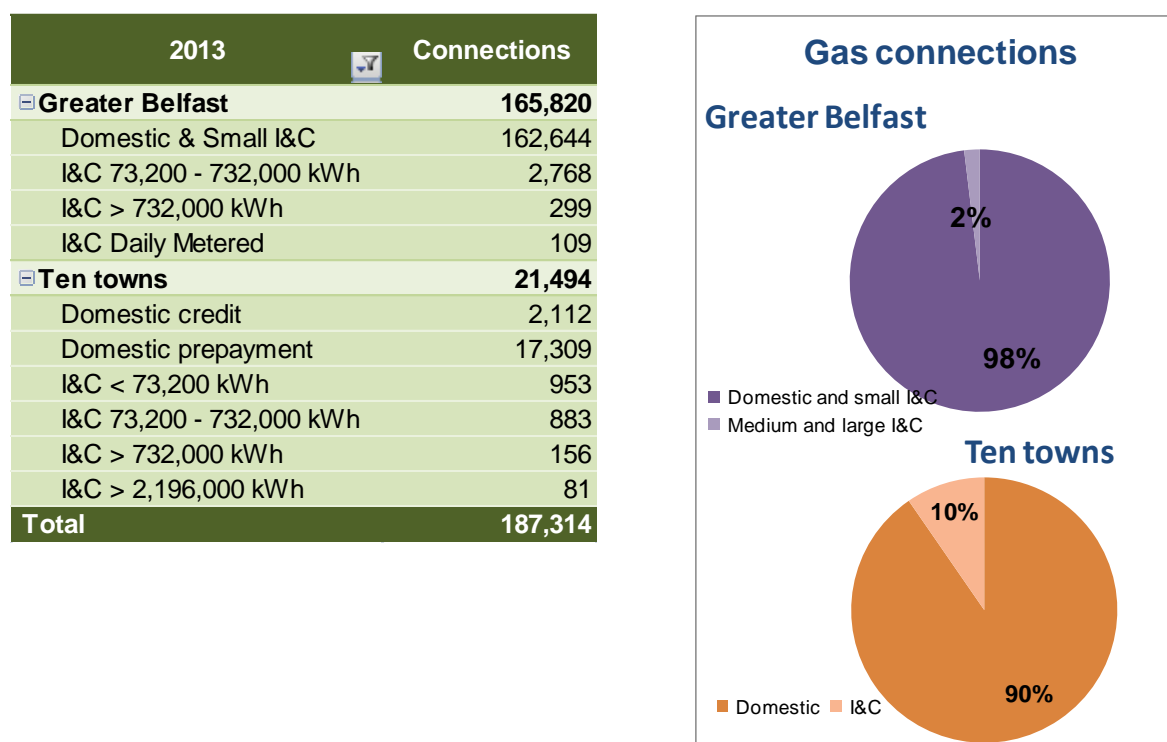
5.1. Customer numbers

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

The number of connections in both areas increases every year. Figure 22 shows the number of connections (other than the power plants) by market segments in both gas networks by the end of 2013.

The gas network in NI continues to be extended. In January 2013 the NI Executive Committee agreed to assist the extension of the NI natural gas network to the five largest towns in counties Tyrone, Fermanagh and South Derry²⁵. The licencing arrangements and development plans are currently under consideration, but it is hoped that gas supply in these towns will commence in 2017.

Figure 22 Gas connections in NI by distribution Licensed Area



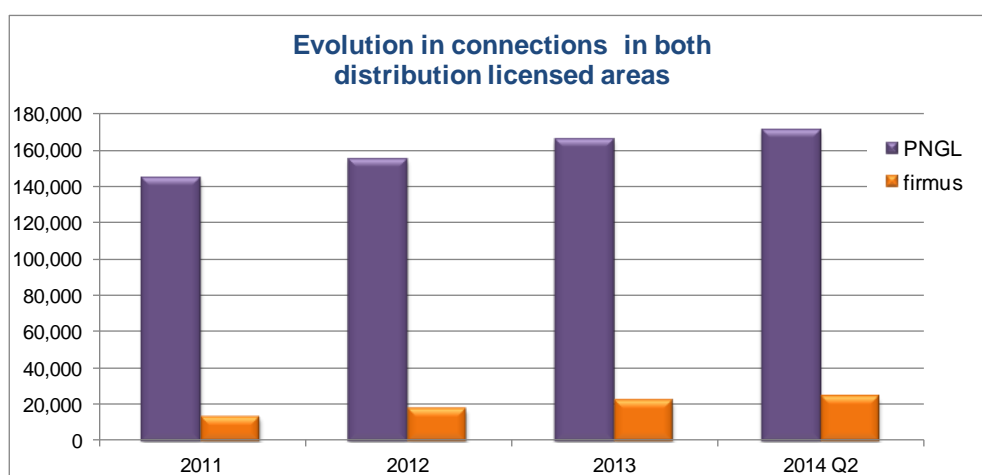
Source: PNGL and firmus energy

²⁵ These towns being: Dungannon including Coalisland, Cookstown including Magherafelt, Enniskillen including Derrylin, Omagh, and Strabane.

In the gas market, the domestic and small I&C sector (<73,200 kWh/annum) represents the largest share of the total number of connections in PNGL's distribution Licensed Area, with 98% of the total gas connections at the end of 2013. The percentage of domestic connections in the firmus energy's Licensed Area was 90% at the end of 2013.

Figure 23 shows the trend of growth in the number of connections in NI by distribution Licensed Area. By the end of the second quarter of 2014, the total number of connections increased to 171,303 in the PNGL's Licensed Area (an increase of 7% from the number of connections at the end of the same period last year) and 23,368 (an increase of 21% from the number of connections at the end of 2013) in the firmus energy's Licensed area.

Figure 23 Evolution of gas connections in NI by distribution Licensed Area



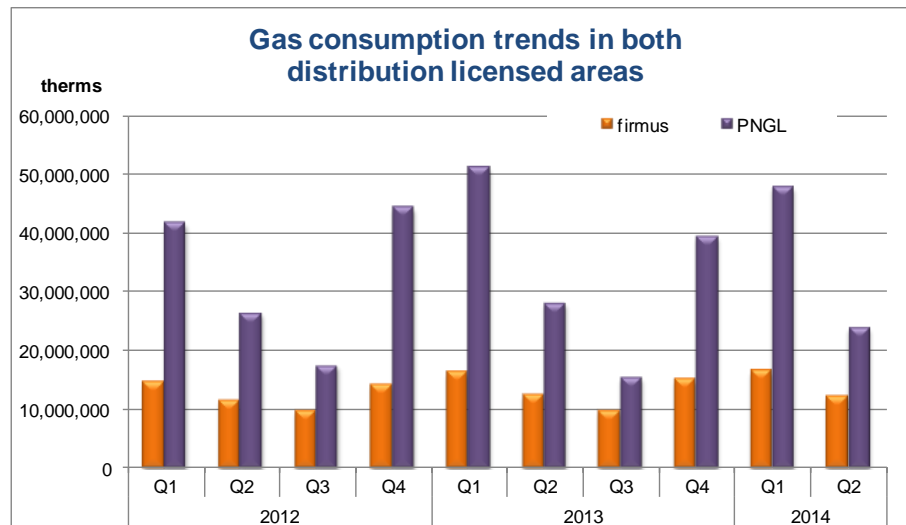
Source: PNGL and firmus energy

5.2. Consumption

Natural gas in NI is consumed by final gas customers and by Ballylumford and Coolkeeragh power stations. In this report, we refer only to the natural gas that is distributed and used by final gas customers. This represents approximately 41% of the total gas that enters NI.

Quarterly gas consumption, from the start of 2012 to the second quarter in 2014, in both distribution Licensed Areas is shown in Figure 24. Due to seasonality, consumption is considerably lower over the second and third quarters of the year, with increases in the winter months (Q4 and again in Q1 of the following calendar year).

Figure 24 Evolution of gas consumption in both Licensed Areas



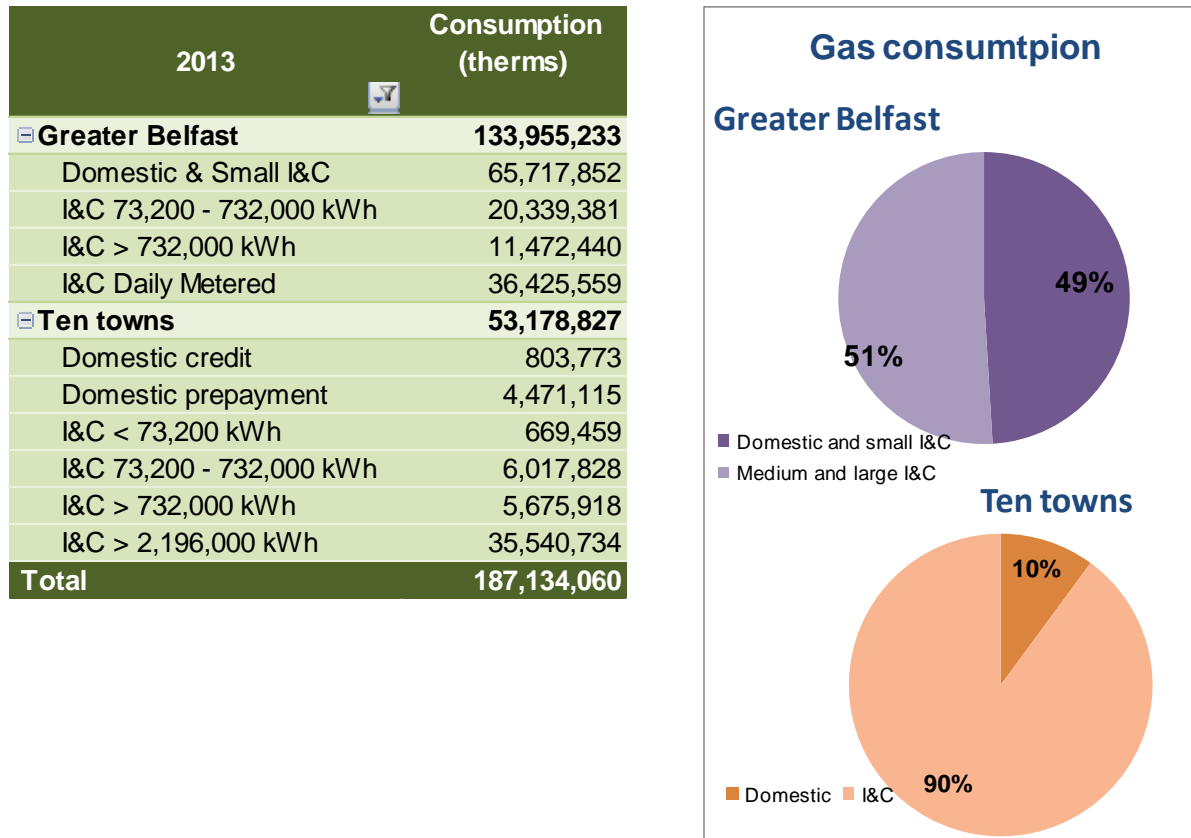
Source: PNGL and firmus energy

Consumption by market segment is shown in Figure 25 in both Licensed Areas. In PNGL area, the total consumption in 2013 was close to 134,000,000 therms. This represents an increase of almost 3% from the previous year.

In the firmus energy's Licensed Area, total consumption in 2013 was over 52,000,000 therms. This represents an increase of 4% from consumption in 2012.

In terms of market segment split, the domestic and small I&C sector (<73,200 kWh, or <2,500 Therms/annum) consumes about 49% of the total gas in the PNGL's Licensed Area, while the rest of the non-domestic sector – over 73,200 kWh – consumes 51%. In the firmus energy's Licensed Area, the domestic sector accounts for 10% and the non-domestic sector accounts for 90% of the consumption in the Area.

Figure 26 Gas consumption in 2013 in NI by distribution Licensed Area



Source: PNGL and firmus energy

5.3. Active suppliers

Active suppliers in Greater Belfast

There are currently ten companies holding gas supply licences for the supply of gas to final gas customers in NI, however only four suppliers were active in the PNGL's Licensed Area at the end of 2013.

The names of the active gas suppliers, and the markets they operate in, are in Table 5 below. All these suppliers are active in the non-domestic electricity market, while two of them are also active in the domestic sector.

Table 5 Active suppliers in the gas supply market

Suppliers	Domestic sector	Non-domestic sector
SSE Airtricity ²⁶	✓	✓
firmus energy	✓	✓
Electric Ireland		✓
Vayu		✓

Source: UR, PNGL, firmus energy and gas suppliers

Active suppliers in Ten Towns

firmus energy currently retains the exclusive rights to supply gas to customers below 732,000 kWh (the domestic and small-medium I&C segments). In the Ten Towns Licensed Area competition in the domestic and non-domestic (small to medium users segment) will start in April 2015. The large non-domestic users market opened to competition in October 2012. During 2013 two suppliers, firmus energy and SSE Airtricity, were active in the large non-domestic users segment in the Ten Towns.

5.4. Methods of payment

Gas suppliers are obliged, under their supply licence, to offer their domestic customers three payment methods²⁷. Therefore, domestic customers in NI are able to avail of one of the following methods to pay for their gas:

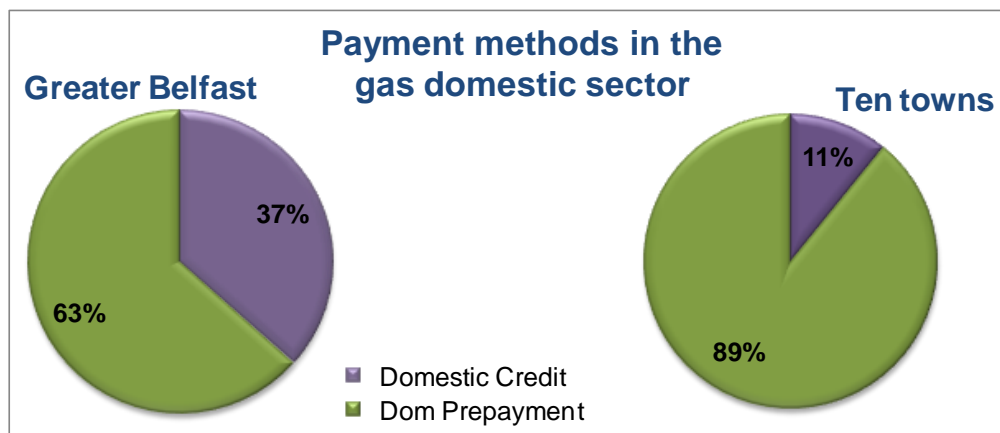
- Prepayment meter, where customers can top-up their gas as they foresee their short-term consumption
- Standard credit, where for example the supplier charges the customer each quarter with an amount equal to the quarterly bill
- Direct debit, where a direct debit mandate is established instructing the supplier to debit the customer's bank account with a fixed amount at regular intervals, based on the expected annual cost of the bill, or debit the customer's bank account after each bill is issued with the amount equal to billed amount.

Figure 27 shows the percentage of gas domestic customers with prepayment meters and the percentage of customers availing of the credit options. In the PNGL's distribution Licensed Area (Greater Belfast and Larne), the percentage of prepayment meters at the end of 2013 was 63% (60% in 2012), while for the same period, prepayment as a percentage of domestic customers was higher in the Ten Towns Area, with 89% (88% in 2012) of the domestic connections.

²⁶ SEE Airtricity, formerly called Airtricity Gas Supply (was previously called Phoenix Supply Ltd)

²⁷ Paragraph 11 in condition 2.18, on Terms and Conditions of Gas Supply Contracts, states that: "The Licensee shall ensure that its standard terms and conditions provide domestic customers with a choice of payment methods, including as a minimum making payment: (a) in arrears (at such frequency as is set out in the terms and conditions), (b) by direct debit (at such frequency as is set out in the terms and conditions), and (c) in advance through a prepayment meter.

Figure 27 Split between payment methods.



Source: gas suppliers²⁸

5.5. Market shares

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

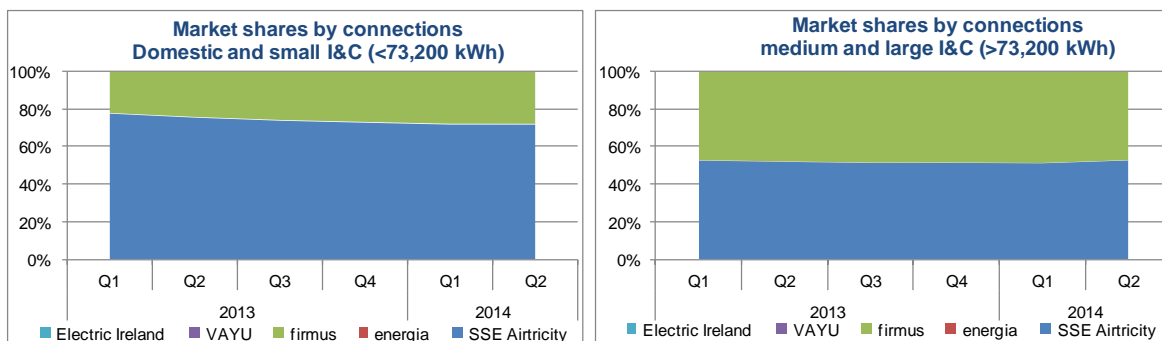
The tables below show absolute and relative numbers for connections at the end of 2013 and annual consumption over the year, per market segment and per supplier. The graphs below show the quarterly evolution in market shares, by the following gas market segments:

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

²⁸ The terminology on meters has been homogenised for simplicity when comparing type of meters in both areas.

Figure 28 Domestic and small I&C market shares in PNGL's distribution Licensed Area

2013 Domestic and small I&C (<73,200kWh)	Connections	Market share (connections)	Consumption (Therms)	Market share (consumption)
SSE Airtricity	118,446	72.83%	47,514,590	72.30%
firmus	44,184	27.17%	18,189,788	27.68%
VAYU	14	0.01%	13,474	0.02%
Electric Ireland	0	0.00%	0	0.00%
Total	162,644	100%	65,717,852	100%



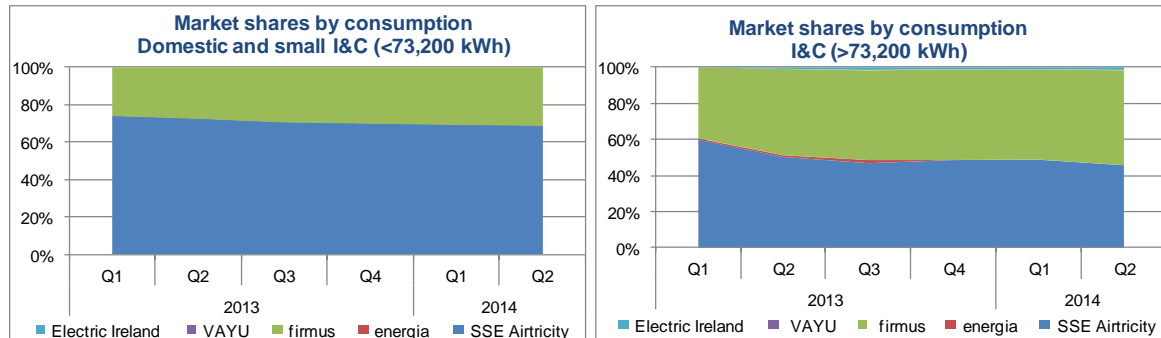
Source: PNGL

In 2013 there were three active suppliers in this market, although the shares of the main supplier, SSE Airtricity, were still quite high with 73% by number of connections and 72% in terms of volume consumed. The shares have decreased from last year, as were 80% and 82% respectively at the end of 2012. The shares of the formerly incumbent gas supplier continue to decrease, and at the end of Q2 2014, SSE Airtricity's share by connections in this market segment was 72%, and 69% by consumption.

Due to the current high market concentration, supply price controls are retained on this dominant supplier by the UR.

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

2013 Medium and large I&C > 73,200kWh	Connections	Market share (connections)	Consumption (Therms)	Market share (consumption)
SSE Airtricity	1,637	51.54%	36,033,073	52.81%
firmus	1,530	48.17%	31,124,493	45.61%
VAYU	8	0.25%	53,263	0.08%
Electric Ireland	1	0.03%	530,100	0.78%
energia	0	0.00%	496,452	0.73%
Total	3,176	100%	68,237,380	100%



Source: PNGL

There were five active suppliers in the medium and large non-domestic market (those customers using more than 73,200 kWh per annum) during 2013. Three of them, Energia, Electric Ireland and Vayu, had a very small portion of the market (less than 1% market share by connections and by volume). Energia left the gas market around mid-2013.

In this sector of the market with larger customers, competition is more noticeable. Although the shares of the main supplier, SSE Airtricity, are still over 50% (52% in terms of connections and 53% in terms of volume), they keep decreasing in comparison to the same period last year, when market share in terms of connections was 59% and 67% by volume.

By the end of Q2 2014, SSE Airtricity's share by connections in this market increased slightly to 53% by connections, and decreased to 46% by volume.

In the Ten Towns distribution Licensed Area, competition opened in October 2012 in the large non-domestic market. SSE Airtricity entered the large I&C market in January 2013, and as at end June 2014, 30 supply meter points had switched from firmus energy to SSE Airtricity. This equates to 12% market share of the large I&C market (over 732,000 kWh consumption per year) in terms of connections and 10% market share in terms of consumption (during Q2 2014).

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

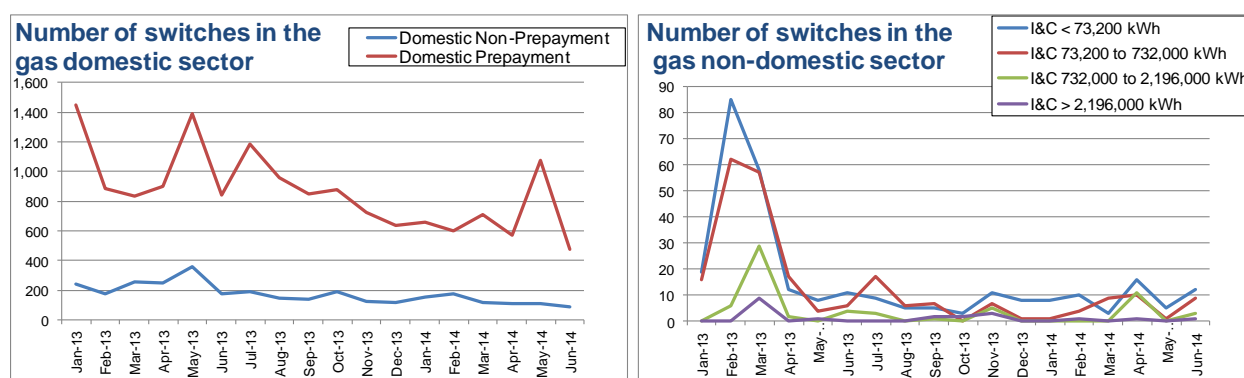
5.6. Switching activity

The switching rate for the domestic market in Greater Belfast for 2013 was 9% (13% in 2012), while the rate for the non-domestic segment was 5% (11% for 2012). These percentages are calculated using the number of Supply Meter Point switches in 2013 as a percentage of the number of Supply Meter Points in the market segment at the end of year.

The total number of supplier switches in 2013, for both domestic and non-domestic customers, was over 14,400. This is a decrease from 19,800 in the previous year.

Figure 30 shows the number of gas Supply Meter Point switches confirmed, split by market segment, in the domestic and non-domestic markets, from the beginning of 2013 until the most available data for 2014.

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



Source: PNGL and gas suppliers

5.7. Gas prices

In the Greater Belfast market we directly regulate SSE Airtricity by price control as they are in a dominant position within the domestic and small business sectors. In this area, the SSE Airtricity tariffs are regulated for customers using less than 732,000 kWh (25,000 therms) per annum, as we do not consider that this section of the market is sufficiently protected by competition.

Until now, a price control has not existed for the firmus energy supply tariff as the company was still in the early stages of its development, focused on growing their business and attracting as many new customers as possible. A necessary requirement in achieving this is to price as competitively as possible against alternative fuels (e.g. home heating oil). Also, firmus energy is incentivised through the distribution price control to maximise volume throughout the control period, and to achieve this, firmus energy must price competitively in order to win new customers and increase the demand for gas flowing through its distribution network.

In June 2014 we published a consultation²⁹ which proposed that we would apply a price control to firmus energy in the Ten Towns area from 1 April 2015 when the full market opens to competition. It is proposed that this price control will also apply to the domestic and small business sectors (customers using less than 732,000 kWh per annum).

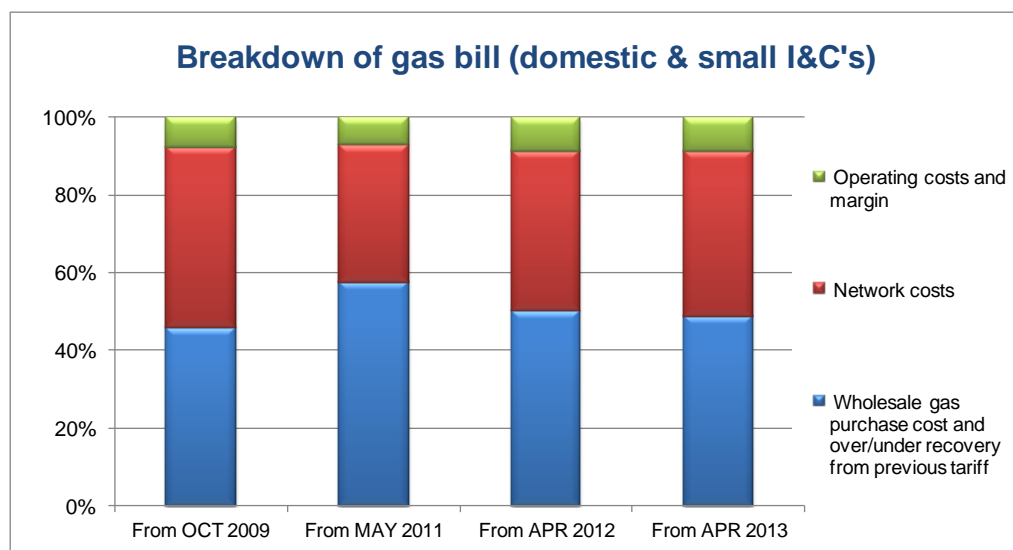
²⁹ Initial consultation on price control for firmus energy (Supply) Ltd, June 2014:
http://www.uregni.gov.uk/uploads/publications/2014-05-07_Initial_Consultation_fe_supply_price_control.pdf

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

In the gas sector, the components of the tariff differ somewhat from those in the electricity sector, and mainly refer to gas costs, transmission and distribution charges, supply operating costs, “k” correction factor (the over/under recovery from previous tariffs) and the allowed profit margin.

The relative importance of the various elements that make up final bills is shown in Figure 31, illustrated by reference to the percentage components of the gas bills. This graph relates only to the regulated tariff, therefore the breakdown of the gas bill corresponds to all SSE Airtricity regulated customers over the relevant periods. The graph shows the relative importance of wholesale and network related costs in the final regulated prices (on average these account for between 40% and 50% each year) compared to the actual supply costs (operating costs and margins) of around 9% of the final price.

Figure 31 Make-up of regulated gas bill



Source: UR and SSE Airtricity

Gas price comparison with GB and RoI

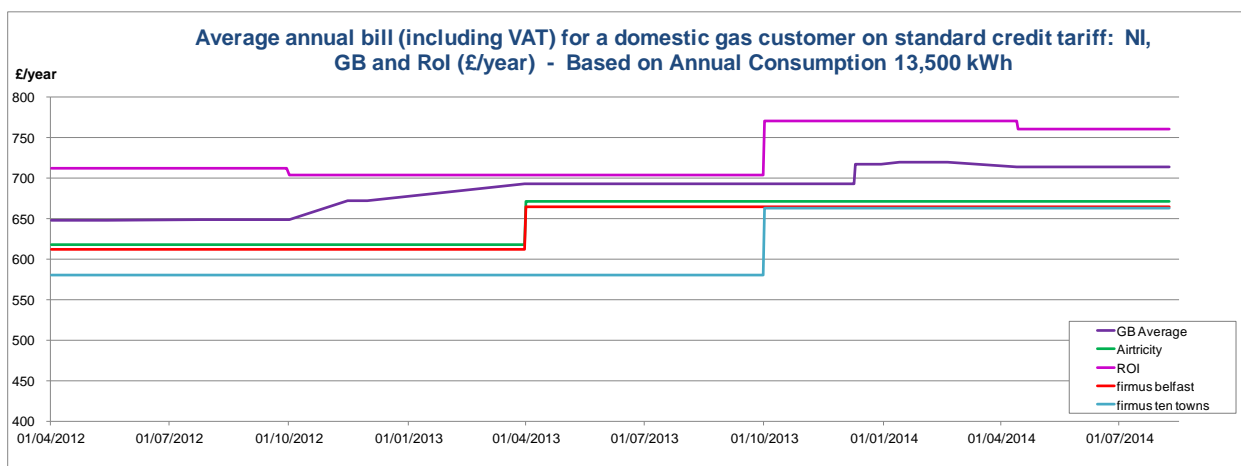
Historically NI prices have been higher than in GB, mainly attributable to the fact that the NI gas infrastructure has been built quite recently. There are also other explanatory factors, such as extra costs of gas transportation from Scotland, etc. This trend changed in 2009 as a result of the almost immediate pass through to customers of the fall in prices from the price control in NI, and also because GB suppliers demand relatively greater margins. Since then, SSE Airtricity tariffs suffered a strong increase (39.1%) in 2011, followed by a 8.5% decrease in 2012 and then a 8.7% increase in 2013. There has been no change to the SSE Airtricity tariffs since April 2013.

Currently the gas regulated price in the domestic sector and small I&C in NI, in both distribution Licensed Areas, is below gas prices in RoI, and below the average of the big six suppliers in GB³⁰.

Figure 32 compares domestic prices for a standard gas tariff since April 2012. It shows the GB average for the big six suppliers in GB. The annual usage estimate is 13,500³¹ kWh. RoI prices are represented by BGE's tariff for the same estimated usage, and converted into pound sterling for comparison purposes (using the exchange rate applicable at the date of each tariff change). All tariffs used for comparison purposes are the standard tariff rates for domestic credit customers (excluding any discounts available for payment by direct debit, online billing etc).

In RoI, BGE increased tariffs by 2.04% from 1 October 2013. The graph however shows a slight decrease at that time. This is due to the changes in the exchange rate as the RoI tariff is converted into pound sterling (for comparison purposes) using the exchange rate applicable at the date of each tariff change.

Figure 32 Average annual bill for a gas customer on standard credit tariff:
Northern Ireland, GB and RoI (£/year)



Source: UR internal data

Price comparison at EU level

The comparison between NI domestic gas price with the most recent available prices for other countries in Europe over 2013 is shown in the figures below. The figures used for NI are based on the SSE Airtricity tariffs, for a customer consuming 13,500 kWh per annum – including VAT – that applied:

³⁰ This comparison is based on domestic prices for standard gas tariffs and does not include discounts available for online billing, payment by direct debit etc.

³¹ Last year annual report used annual usage of 16,500 kWh, while this year the annual usage estimate is 13,500 kWh. This change responds to Ofgem's adjustment of average consumption to 13,500kWh (<https://www.ofgem.gov.uk/ofgem-publications/84048/gastdcvdirection.pdf>).

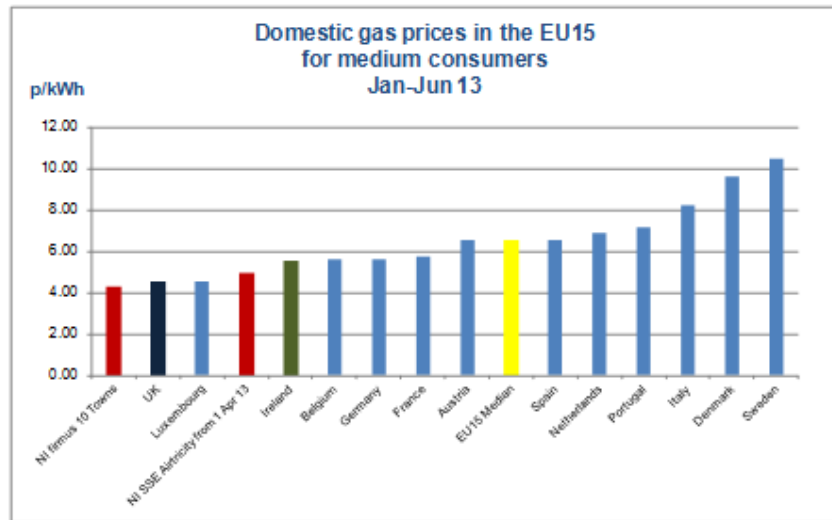
- For the period Jan – Jun 2013 (Figure 33) – The SSE Airtricity credit tariff applying from April 2013, for a customer on a standard tariff consuming 13,500 kWh per annum (6.957p/kWh for first 2000 kWh, then 4.629p/kWh). It also shows the credit tariff for 10 Towns customers (6.804 p/kWh for first 2000 kWh, then 4.586 p/kWh).
- For the period Jul – Dec 2012 (Figure 34) – The NI price used is based on the SSE Airtricity credit tariff applying from April 2013, for a customer on a standard tariff consuming 13,500 kWh per annum (6.957p/kWh for first 2000 kWh, then 4.629p/kWh). It also shows the credit tariffs for 10 Towns customers, as follows:
 Until 30 Sep 2013: 5.948p/kWh for the first 2000 kWh, and then 4.009 p/kWh
 From 1 Oct 2013: 6.804 p/kWh for first 2000 kWh, and then 4.586 p/kWh

Data from EU members has been obtained from Eurostat, for medium consumers consuming 2,500 – 4,999 kWh per annum. This data relates to the two semesters in 2013 (January–June and July–December).

The figures also include the tariff for Ten Towns customers for a customer consuming 13,500 kWh per annum (including VAT).

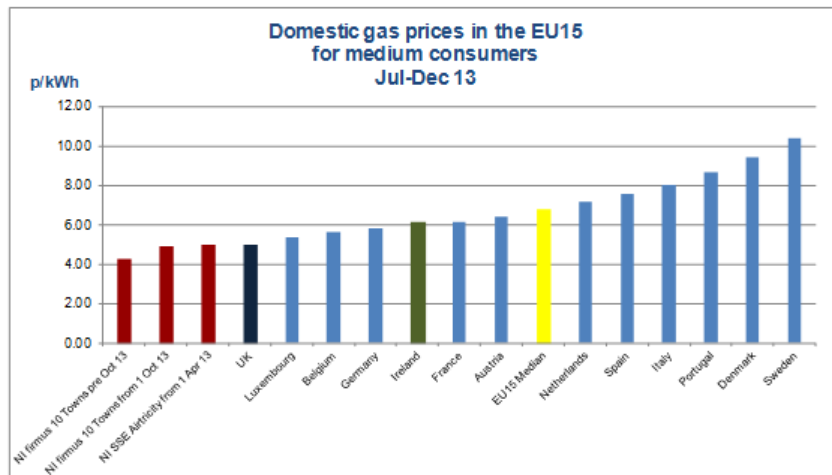
The chart shows that NI gas prices are among the lowest in Europe.

Figure 33 Domestic gas price comparison at EU level including taxes. Jan-Jun 2013



Source: UR and DECC Quarterly energy Prices

Figure 34 Domestic gas price comparison at EU level (including taxes) Jul-Dec 2013



Source: UR and DECC Quarterly energy Prices

Glossary

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

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