

Electricity pricing paper Q and A

1. Why are we doing this now?

New energy regulations from Europe (The Third Energy Package or IME3) require that National Regulatory Authorities (which the Utility Regulator is) should monitor the efficient functioning of the competitive market, promote effective competition and help ensure consumer protection. Different EU legislation also obliges Member States to improve the transparency of electricity prices charged to Industrial and Commercial (I&C) customers.

In addition, we conducted an inquiry in November 2009 into the electricity tariffs paid by I&C customers. One of the outcomes of the inquiry was to carry out future monitoring of the competitiveness of the market and the main drivers behind electricity prices. We have also received queries and information requests regarding the competitiveness of our I&C prices from stakeholders and interested parties which we have been unable to answer before now.

Whilst we do not price regulate the large I&C market, as competition works to put downward pressure on costs and prices, we do have a statutory duty to protect the interests of all consumers. The price of electricity is central to the consumer's interest.

We currently publish a 'Quarterly Transparency Report' that includes domestic energy price comparisons. It is only the I&C prices that have not been available for Northern Ireland before now.

This paper is the first phase in a long-term project to increase transparency to better understand energy prices in Northern Ireland, and to encourage involvement of all stakeholders (regulators, policy makers, electricity industry and consumer groups) who have respective responsibilities in helping to explain our pricing picture.

2. How is an I&C electricity bill made up?

As contracts between I&C customers and their electricity supplier are confidential, the specific breakdown of individual bills is not available. However, a business electricity bill is made up of the following:

- charge for electricity consumed;
- capacity charge (includes the generators operating costs);
- infrastructure costs (includes PSO, market operator, Duos and Tuos charges);
- supplier costs and margins; and
- taxes.

3. How did the Utility Regulator gather the information?

We began collecting data relating to I&C electricity prices in October 2011 from business electricity suppliers. The suppliers, Power NI, Energia, firmus energy, Electric Ireland, Airtricity and Budget Energy, provided us with the volume of electricity sold, the revenue gained from the sale and the number of I&C customers that they supply in each size category. We have published the prices as 'averages', as the information gathered from the electricity suppliers is commercially sensitive, and also, this format allows us to compare NI data with EU figures.

As the Department of Energy and Climate Change (DECC) produce a quarterly bulletin, which includes a comparison of domestic and industrial electricity prices in the EU, we followed their format and methodology for gathering and analysing I&C prices. This is to ensure that when comparing Northern Ireland prices with the rest of Europe, it is on a 'like for like' basis. We have used Eurostat - the statistical office of the European Union - database to input EU figures in all I&C customer size bands, as per DECC's methodology.

4. Why are large businesses in Northern Ireland paying more for their electricity here than other European countries, when this is not the case for smaller businesses?

Further analysis is required to fully understand the reason for this – our data should now enable further work to be developed on this with a firmer foundation.

In seeking to improve our current position, and to enable next steps, we must first better understand the reasons for the position. We intend for this paper to be a catalyst for further debate on the drivers behind the electricity costs and welcome feedback from stakeholders. To aid this understanding, our further work will include continuing to collect and analyse I&C prices on a quarterly basis; breaking down and comparing where possible the components of the final price; and reviewing the allocation of costs across regulated network tariffs.

5. Will these comparisons be published annually?

We intend to publish this information on a quarterly basis and to be included in our Quarterly Transparency Reports. Eurostat collects and publish bi-annual figures, which is well received by their stakeholders.

6. What can the Utility Regulator do to help reduce electricity prices for businesses in Northern Ireland?

Along with domestic electricity prices charged by Power NI, we continue to directly regulate the prices they charge to smaller I&C customers. We ensure that these electricity bills reflect the actual cost of providing electricity to homes and small businesses.

In addition, we regulate the infrastructure component within a large I&C's electricity bill. The costs of each of the monopoly companies (for example, NIE for distribution costs and SONI for the market operator costs) are approved through our price control processes. Our regulation therefore has an impact on all prices charged by suppliers.

One of the aims of this paper is to stimulate further debate on the drivers behind electricity costs and encourage all stakeholders to engage with us in order to provide greater understanding of energy prices in Northern Ireland. We believe that this will better inform the policy debate in key areas and will help to improve international competitiveness of our I&C businesses. Our view is that regulators, policy makers, the electricity industry itself and consumer groups all have responsibility to contribute to a better understanding and discussion of these issues going forward.

7. What does the Utility Regulator intend to do next?

The pricing paper is the first phase in a longer-term project. As a first step, we will listen and engage with stakeholders as to how we can enhance our analysis and reporting in order to facilitate debate on energy policy, regulation and the drivers of high electricity bills. To improve our current situation, we first need to understand the reasons why electricity costs for businesses are what they are.

Specifically, we have identified three key work areas for 2013/14 that will directly impact the issues:

- a review of the effectiveness of competition in the I&C market;
- continue to robustly scrutinise network price control proposals (whilst allowing companies to finance); and
- the efficient integration of wholesale market with Western Europe (including interconnector arrangements)

As a consequence of our transparency, we hope that other stakeholders will contribute to initiatives that impact on the issues raised.

In addition, to effectively monitor the retail energy sector, a wider energy retail market monitoring framework needs to be implemented. This will provide better understanding of the market as a whole. We intend to commence this work in 2013/14 and will use EU best practice in advancing this work.