Utility Regulator
ELECTRICITY GAS WATER

Energy Retail Report

2012

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Energy Retail Report 2012

Introduction

This series of annual reports details information on the regulated energy sector in Northern Ireland. We thank our stakeholders, particularly in the regulated companies, for providing helpful information to complete our retail reports – both annually and quarterly – which enables us to continue to maintain the related database that we use for monitoring.

The annual energy retail report is a live document. We intend to keep improving and adapting its content and coverage to the needs of our readers, and at the same time use it as a monitoring and information tool alongside the Quarterly Transparency Reports[1] (QTRs). To that end, we welcome comments and views from readers and stakeholders in terms of how the report might be improved and new data sets or sources that would be useful to add to future editions. Comments are very welcome and should be sent to:

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Purpose of the document

Through this report we intend to deliver transparency for stakeholders and customers. The purpose of the report is to provide readers with readily accessible information on the work of the Utility Regulator (UR) and the energy sectors we regulate. It specifically focuses on the evolution and performance of Northern Ireland regulated retail energy markets: electricity and natural gas. With the arrival of energy supply competition at household level in 2010, transparency and information around the workings of our energy supply markets is more important than ever and as the number of participants to the market increase, this strengthens the need for transparency.

The annual report is structured as follows:

PART ONE: Background. This part covers general aspects of the Northern Ireland regulated energy sector. It gives a high level overview of how the energy sector functions, who the main companies are and the role of the UR.

PART TWO: Core retail information. In this section we present information and data that will give information to stakeholders interested in Northern Ireland retail markets. It also helps us to monitor the functioning of the retail sectors as supply competition emerges.

This section is complemented with the QTRs, which allow closer monitoring of competition development on a more frequent basis.

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

PART THREE: Key retail work areas. This section provides a general overview of some key areas/projects we have progressed over the last year, or intend to progress, in the Retail and Social Directorate within the UR.

Policy background to energy retail competition development

In theory, effective competition can achieve better outcomes for customers than regulation. The benefits from greater energy retail competition might include:

- **Innovation.** New suppliers, with experience in other markets, are likely to bring to market different products that extend consumer choice.
- **Service standards.** Competitive pressures, combined with effective industry systems, should enable high service standards to be delivered flexibly and cost effectively. Regulation can only effectively set a single standard which might be the average of consumers' wishes, while competition can allow different supplier and product offerings to differentiate service levels, with prices varying accordingly.
- **Downward cost pressures.** In the short term, from creating competitive pressure to reducing costs in supply, and to be more efficient in the procurement of wholesale energy. In the long- term, from dynamic efficiencies and improvements driven by competition at both the firm and sectoral levels.

EU law is explicit about the central role of competition to deliver consumer benefit. EU packages of energy legislation require Member States to achieve a "competitive, secure and environmentally sustainable market". Energy Directives[2] 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.

Following all the above, we have actively pursued a policy of creating a fertile environment for greater electricity and gas supply[3] competition. Also, the statutory remit given to us places a high value on effective competition as a means to deliver consumer benefits.

Whilst there has been a demonstrable level of competition in the electricity market for business customers, household-level customers had no choice of electricity suppliers for many years. The only supplier in the domestic sector was Power NI until June 2010, when Airtricity entered this market offering electricity supply first to the credit segment and, a year later, to the keypad segment. During 2011 two more suppliers, Budget Energy and Electric Ireland, entered the 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: Airtricity Gas Supply (AGS, previously Phoenix Supply Limited, PSL until mid 2012, when it was purchased by AGS), firmus energy, Energia and VAYU.

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

For the ten towns[4] connected to the gas network outside of the Greater Belfast and Larne area, firmus energy currently retains the exclusive rights to supply gas to all customers. In October 2012, the ten towns market opened to competition for the large non-domestic customers[5].

[2] 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.
[3] The UR currently regulates the electricity and natural gas supply markets; not the home heating oil market.

The table below shows when competition effectively started in each of the energy market segments, and when the areas still supplied by one incumbent supplier will be open to competition.

Table 1 Energy Competition Opening

Electricity	
Domestic	June 10: Airtricity entered the domestic credit segment. Oct 10: firmus started supplying Ulster Farmers' Union members. May 11: Airtricity entered the domestic keypad segment. June 11: Budget Energy entry. Oct 11: ESB/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)	
Domestic	Nov 10: firmus entered this market segment.
Non-domestic	Four active gas suppliers since 2007: Airtricity Gas Supply[6] (AGS), firmus energy, Energia and VAYU.
Gas (Ten Towns)	
Domestic and non-domestic small users	Apr 2015
Large non-domestic Users	Oct 2012

This table shows a welcome development of early competition in our energy markets in both electricity and gas, and we are hopeful of further entry into our energy markets by other suppliers in the short to medium term.

However to further policy development, we believe that strong regulatory frameworks should remain in place until we think that customers in Northern Ireland can realistically benefit from effective competition. As we go forward we need to try to ensure that all customer groups benefit from competition and switching opportunities, especially now that switching constraints in electricity have been removed (following the implementation of the Enduring Solution in May 2012). Where they do not, we need to ensure that the regulatory structure continues to offer customer protection to the same level as it affords customers today.

In that vein, in May 2012 we published our high level policy position[7] in relation to the regulation of energy supply markets over the next two to three years. The actions and projects resulting from this decision paper will be taken forward as necessary and will be included in subsequent forward work plans. They include the following:

- Retain maximum retail tariff setting and price controls on dominant incumbent suppliers.
- No 'automatic' triggers to removal of current supply price controls.

[4] Antrim, Armagh, Ballymena, Ballymoney, Banbridge, Coleraine, Craigavon, L'Derry, Limavady and Newry.
[5] http://www.uregni.gov.uk/uploads/publications/2011-02-21_Decision_paper_firmus_exclusivity.pdf
[6] Formerly called Phoenix Supply Ltd (PSL)
[7] http://www.uregni.gov.uk/uploads/publications/Regulatory_Approach_to_Energy_Supply_Competition_in_Northern_Ireland.pdf

- Undertake further more disaggregated analysis on retail market sub-sectors for monitoring purposes.
- Continue with quarterly retail market monitoring and gradually evolve scope of this monitoring work.
- Revisit our Strategic Regulatory Approach as required given the market monitoring work we are undertaking.
- Continue to explore options to improve the relationship between wholesale and retail markets.
- Deliver effective competition from a consumer's perspective.

PART ONE: BACKGROUND

1. Overview of the electricity and gas sectors

1.1. The Utility Regulator

The UR is an independent non-ministerial government department. Our role is to ensure that the utility industries in Northern Ireland are regulated and developed within the strategic policy parameters set out by the Northern Ireland Executive and the relevant legislation. We have a broad range of functions carried out in line with statutory duties set out mainly in the Energy (Northern Ireland) Order 2003 and the Water and Sewerage Services (Northern Ireland) Order 2006.

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

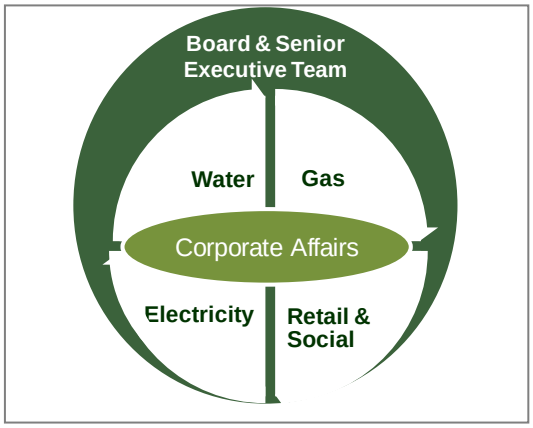
The UR has four regulatory directorates:

- Electricity
- Gas
- Retail and Social
- Water

The directorates are responsible for the economic and consumer service regulation of the three regulated sectors.

They are supported by a Corporate Affairs directorate responsible mainly for finance and administration, strategy development, legal and communications.

Figure 1 Utility Regulator's internal structure



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

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

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

To find more about us, please visit: http://www.uregni.gov.uk/ .

1.2. Price controls – a key function in protecting energy consumers

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

The standard price control is normally applied to natural monopoly network businesses (pipes and wires), however, due to lack of competition in certain electricity and gas supply customer categories (including domestic customers), a 'supply' price control is in place in Northern Ireland for the dominant gas (Airtricity Gas Supply (NI)) and electricity (Power NI) supply companies.

The main objectives of a price control are:

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

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

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

Price control methodology

A price control determines the allowed annual expenditure for the utility company. In order to make this determination, the UR analyses each element of the costs submitted from the company. We take into consideration historic costs, demand forecasts for the period of the control, any changes in the gas or electricity industry, cost drivers and comparisons with GB and

RoI. We also consult with the companies, DETI, the CCNI and other interested parties before making a final determination[8].

The amount of money that a monopoly network business can earn on its regulated business is restricted by a Retail Price Index (RPI) - X price control that is reviewed every few years. It controls prices, not profits, and encourages efficiency within the company. The RPI - X price control takes the retail price index (the rate of inflation) as its benchmark and subtracts X (an efficiency factor) from it. For example, at a time when annual inflation was three per cent, an X of two would allow the company to raise prices by no more than one per cent[9].

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

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

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

In WACC methodology the efficient level of the costs of the sources of financing of a company (basically debt and equity), are weighted by its respective use in the situation of the price controlled company.	The allowed margin on turnover is judged by historical precedent and by considering the margins obtained by other businesses with similar risk characteristics.

- **Taxation**: the price control must provide sufficient cash flow to cover the tax liabilities, taking into account, for example, the current rate of corporation tax.

What we price control in the energy sector

In the energy sector, we regulate through price control those companies that transport and, in some cases also those that supply, gas and electricity (Power NI, NIE T&D, Phoenix Natural Gas, Airtricity Gas Supply (NI) Ltd and firmus energy).

SEMO and SONI are also price controlled companies.

As the liberalisation process has evolved, some of the supply activities have previously been taken out from the regulatory price control scrutiny, such as the energy supply to larger non

[8] http://www.uregni.gov.uk/uploads/publications/Notes_-_Gas_price_controls_outcome_080409.pdf
[9] http://www.ofgem.gov.uk/Media/FactSheets/Documents1/6610-factsheet39_march04.pdf .

domestic customers. However, we believe that at least the existing regulatory frameworks should remain in place at this time until contestability/competition is firmly evidenced, and until we believe that customers in Northern Ireland can realistically expect to be protected by competition. This is what our statutory duties require. Therefore, we intend to continue to monitor the whole energy retail market to understand how competition is affecting different sub-sectors of customers.

In the electricity sector, price control remains over all customers using less than 150 MWh/year. For those customers, Power NI, the former incumbent electricity supplier, must offer the same regulated retail tariffs to particular sectors of customers.

In the gas sector, price control remains over the domestic sector and I&C (industrial and commercial) customers who consume less than 25,000 therms per annum.

Table 2 Current electricity price controls

Document	Implementation	Link to our website
Power NI Price Control	2011 – 2013	http://www.uregni.gov.uk/uploads/publications/Decision_Paper_for_Power_NI_Price_Control_V1_0.pdf
SEMO Revenue and Tariffs (Consultation Paper)	2010 - 2013	http://www.uregni.gov.uk/uploads/publications/SEM-10-0501.pdf
Power NI (Formerly NIE) Energy Ltd – Power Procurement Business (PPB) Price Control Decision Paper	2012 - 2015	http://www.uregni.gov.uk/publications/ppb_price_control_decision
NIE T&D Price Control	2007-2012	http://www.uregni.gov.uk/news/regulator_publishes_nie_td_price_control_final_determination
SONI Price Control Decision Paper	2010-2015	http://www.uregni.gov.uk/uploads/publications/SONI_Price_Control_decision_Paper_-_FINAL.pdf

Table 3 Current gas price controls

Document	Implementation	Link to our website
firmus energy Price Control	2009 - 2013	http://www.uregni.gov.uk/uploads/publications/Determination_for_firmus_energy_market_development_review_summary_(2).pdf
Phoenix Supply Price Control Determination (now assigned to Airtricity Gas Supply)	2012 - 2016	http://www.uregni.gov.uk/uploads/publications/PSL_PC03_Determined_to_Position.pdf
Phoenix Distribution Price Control	2012 – 2013	http://www.uregni.gov.uk/uploads/publications/PNGL12_Final_Decisions_FINAL.pdf
BGE (NI) Ltd Price Control 2012-2017 Determination	2012 – 2017	http://www.uregni.gov.uk/publications/bge_ni_2012_2017_price_control_determination

1.3. Structure of the Northern Ireland energy sector

Northern Ireland energy sector's main agents

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

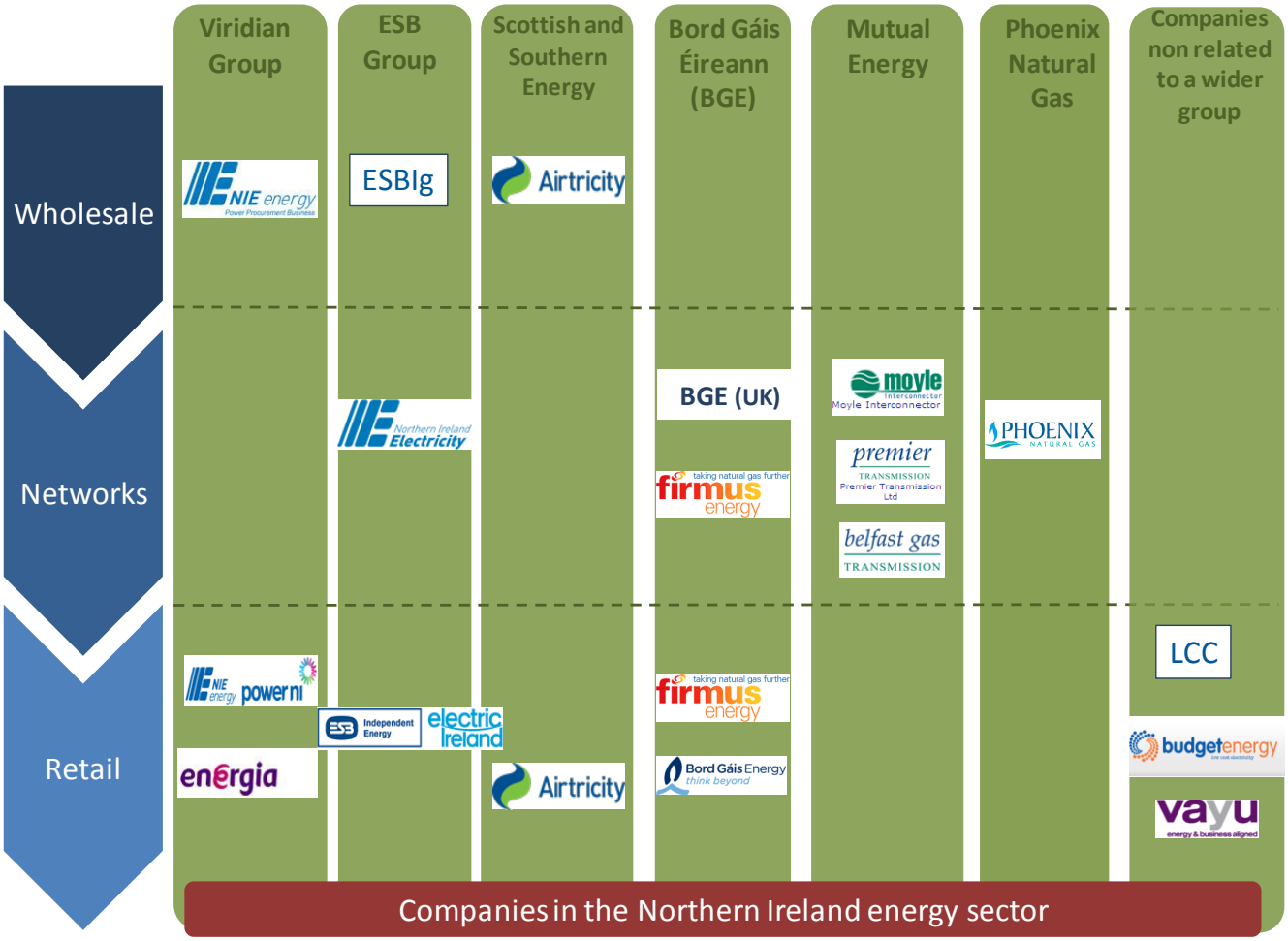
The electricity wholesale market is where the generators and suppliers trade with each other. Key regulatory issues are electricity generator issues and licenses, SEM, economic purchasing obligations, hedging and wholesale energy purchasing strategies.

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

Retail markets are where suppliers trade with each other. Key regulatory issues in the retail sector are developing effective competition that can benefit all customers, price control of the former incumbent supplier (as monopolistic attributes remain and competition is insufficient to fully protect customers) and customer protection in terms of price and service quality.

The figure below shows an overview of the main agents with a role in the gas and electricity sectors in Northern Ireland. Some of them are also active participants in the RoI or GB energy markets.

Figure 2 Main agents in the energy sector in Northern Ireland



Source: UR

Note that Airtricity Energy Supply (Northern Ireland) Ltd purchased Phoenix Supply Ltd in June 2012. Phoenix Supply was subsequently renamed Airtricity Gas Supply (NI) Ltd (AGS) and now trades under the Airtricity banner.

For information on electricity licences, please visit: http://www.uregni.gov.uk/electricity/

Main energy assets

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

Table 4 Main energy assets

ACTIVITY	ASSETS	OPERATOR & OWNER	HOW THE UR REGULATES?	PRICE CONTROL
Power station	**Ballylumford** CCTG (1,213 MW)	AES	Electricity Generation Licence. SEM from 1/11/2007	NO
Power station	**Coolkeeragh** CCTG (455 MW)	ESBIE	Electricity Generation Licence	NO
Power station	**Kilroot** (Coal, Heavy Fuel 618 MW)	AES	Electricity Generation Licence	NO
Interconnector	**Moyle Interconnectors**	Mutual Energy	Moyle Interconnector Transmission licence	NO
Transmission lines	**North/South tie-lines** Tandragee - Louth Strabane-Letterkenny Enniskillen-Corraclassy	NIE T&D Operated by SONI	Transmission licences	YES
Transmission system	**275 kV and 110 kV network**	NIE T&D Operated by SONI	Transmission licences	YES
Distribution System	**33 kV, 11 kV, 6.6 kV and 400 V network**	NIE T&D	Transmission Licence	YES
Transmission pipeline	**SNIP**	PTL (Premier Transmission Limited)	Gas Transmission Licence	NO[1]
Pipeline	**BGTP**	Belfast Gas Transmission Pipeline	Gas Transmission Licence	NO
Transmission pipelines	**NW** (Northwest) **& SN** (South North) pipeline	Owned by BGE (UK)	Gas Transmission Licence	YES
Distribution pipelines	**PNG network** **firmus network**	Phoenix Natural Gas firmus energy	Gas Distribution Licence	YES

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

System Operator (SONI) www.soni.ltd.uk

SONI Ltd is the Transmission System Operator (TSO) in Northern Ireland, owned by Eirgrid plc, the TSO in the Republic of Ireland. Its role is to ensure the safe, secure and economic operation of the high voltage electricity grid in Northern Ireland. As electricity cannot currently be stored in any meaningful quantity, SONI must balance the generation with the demand in real time.

In conjunction with Eirgrid, SONI is the SEMO, the responsible for the operation of the Single Electricity Market on the island of Ireland.

Market Operator (SEMO) www.sem-o.com

SEMO is the Single Electricity Market Operator, responsible for the administration of the wholesale electricity market. SEMO is a joint venture between EirGrid PLC, the transmission system operator for the RoI, and SONI.

It is licensed and regulated cooperatively by the CER and the UR since 2004, when a memorandum of understanding was signed by both regulatory authorities.

Consumer Council for Northern Ireland (CCNI) www.consumercouncil.org.uk/

The Consumer Council is an independent statutory body funded by the DETI. It aims to promote and safeguard the interests of all consumers in Northern Ireland. It has statutory responsibilities for energy (including natural gas, electricity and coal), passenger transport and food. From April 2007 it also became the consumer representative body for water and sewerage services.

They provide free, impartial information, and handle complaints on behalf of consumers who have been unable to resolve problems directly with their energy supplier or meter operator. They provide consumer advice in relation to energy issues, liaise with customers, energy companies, the UR and other relevant parties.

They also undertake research and produce publications on issues such as fuel poverty, energy efficiency, renewable energy and fuel prices.

Wholesale market

The Single Electricity Market (SEM) was created in 2007 and represents the first market of its kind in the world as a gross mandatory pool, operating with dual currencies and in multiple jurisdictions.

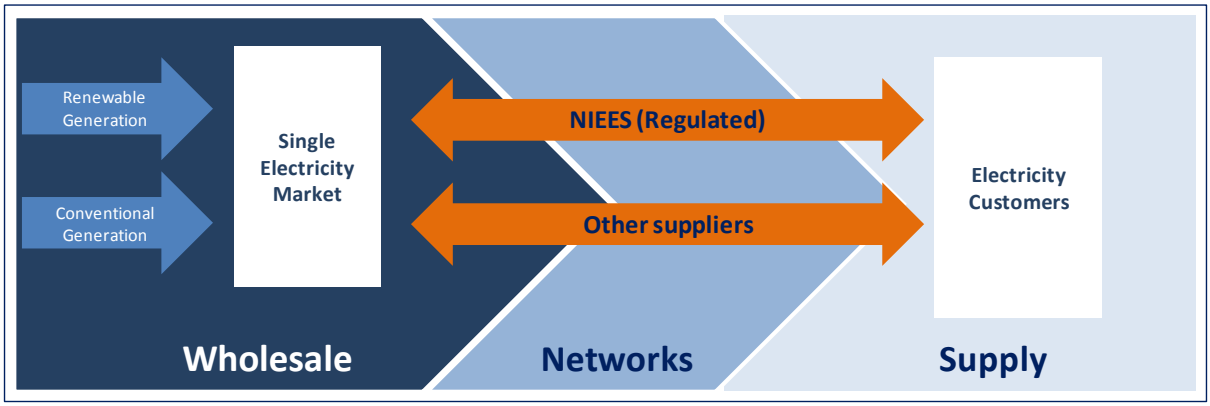
All electricity produced on the island is sold into one large pool, while supply companies buy their power out of this pool with equal access for all suppliers. Generators with a capacity greater than 10 MW must have a licence to operate and must sell their entire output into the Single Electricity Market. Generators with a capacity below 10 MW are able to sell their power directly to suppliers and can decide their own production schedule.

The SEM ensures that the price of electricity charged to consumers is reflective of the costs incurred by the generators to actually produce the electricity, with the most efficient generators that are available to meet demand being used on an all-island basis. The market is specifically designed to set the cheapest possible price for electricity at all times, and to ensure that no company has an undue influence over electricity prices.

The SEM is regulated by the SEM Committee and monitored by the UR's Market Monitoring Unit. It can be considered an important development for the energy sector on the island, with benefits to all customers such as improving choice across the island and enhancing electricity security of supply.

For further information on the SEM, please visit www.allislandproject.org.

Figure 3 Structure of the electricity sector in Northern Ireland



Source: UR

Conventional generation

Northern Ireland has three major electricity generating stations.

The largest one is **Ballylumford power station** which is a natural gas-fired power plant. It consists of a 587 MW CCGT[10] station, a conventional 510 MW thermal plant; and two OCGT[11] units which provide an additional 116 MW nominal capacity for grid support and emergency response. **Coolkeeragh power station** is a natural gas fired combined cycle power plant and a OCGT, with total capacity of 455 MW. **Kilroot power station** (618 MW) is the only coal fired plant (dual coal and oil fired) left in Northern Ireland.

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

In relation to the overall SEM on the island of Ireland, the generation fuel mix include gas, coal, peat, etc. Most of the generation capacity is gas-fired, with more than 4,000 MW of combined cycle plant and around 1,500 MW of other gas-fired plant including open cycle. For further information on generation capacity, please visit http://www.eirgrid.com/media/All-Island%20GCS%202012-2021.pdf .

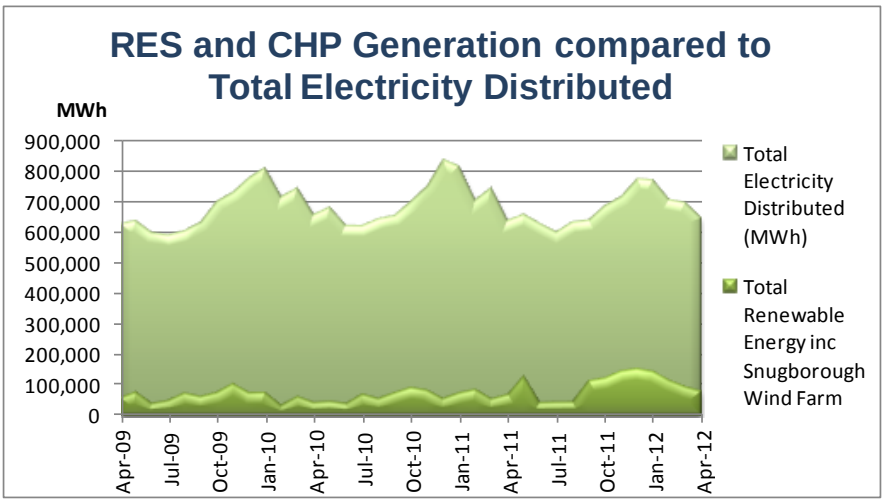
[10] Combined Cycle Gas Turbine (CCGT): a unit whereby electricity is generated by a gas powered turbine and also a second steam-powered turbine. The hot exhaust gases expelled from the first turbine are fed into the heat exchanger to generate steam which powers the second turbine.
[11] Open Cycle Gas Turbine (OCGT): a unit whereby electricity is generated by a gas powered turbine and no use is made of the hot exhaust gases.

Renewable Energy Sources (RES)

In 2011 (April 11 – April 12) 14.71% of electricity supplied in Northern Ireland was generated from RES and CHP[12]. In the same period of 2010, the percentage was 9.16%. The figure below compares the total electricity distributed in Northern Ireland against the generation of electricity through renewable energy and CHP.

The Strategic Energy Framework for Northern Ireland[13] restated the current target of 12% of electricity consumption from renewable resources by 2012. The new additional target agreed by the Executive is 40% of electricity consumption from renewable resources by 2020.

Figure 4 Renewable and CHP generation vs. total electricity distributed



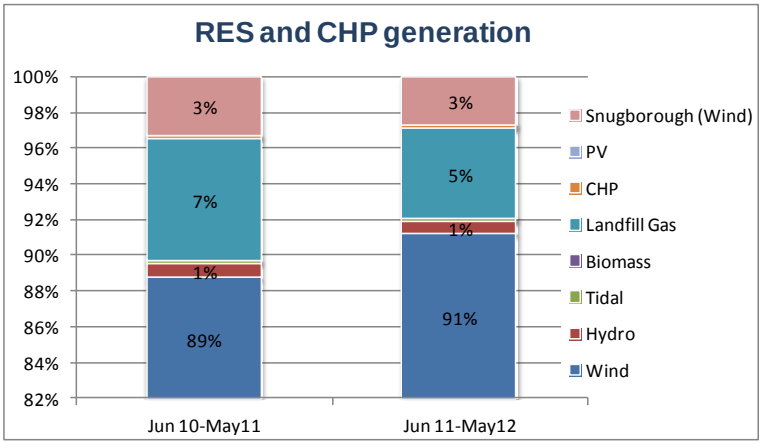
Source: NIE

[12] Combined Heat and Power (CHP): The simultaneous generation of electricity and heat for use within buildings or processes, by recovery of the heat produced in the power generation process. As such, CHP represents the highest efficiency means of generating electricity.

[13] Strategic Energy Framework www.detini.gov.uk/strategic_energy_framework__sef_2010_.pdf

Figure 5 shows the breakdown of RES and CHP production for the current year and the prior year. Wind generation has experienced a slight increase, from 89% to 91%. On the contrary, landfill gas production has suffered a small decrease, from 7% to 5% in Jun 11 to May 12.

Figure 5 Renewable and CHP generation



Source: NIE

The Renewables Obligation is a statutory requirement on electricity suppliers to source an increasing portion of their electricity from renewable sources. In Northern Ireland the obligation was set at 4.27 ROCs per 100 MWh. The total Renewables Obligation in Northern Ireland in 2010/11 was 354,759 MWh.

For further information on the Renewables Obligation, please visit Ofgem's website: http://www.ofgem.gov.uk/Sustainability/Environment/RenewablObl/Pages/RenewablObl.aspx

Gas sources

There are no indigenous sources of gas in Northern Ireland, it all comes via undersea pipelines from GB. Natural gas arriving to Northern Ireland is bought on the UK National Balancing Point, and then transported throughout pipelines. The UR has no direct regulatory control over the wholesale gas market, and prices tend to be set based on national and international demand/supply factors.

Gas arrived in Northern Ireland in 1996 with the completion of the Scotland-Northern Ireland Pipeline (SNIP), and pipelines of Belfast Gas Transmission Limited which delivered gas to the Ballylumford power station and to the Phoenix distribution network in Greater Belfast. The North-West and South-North pipelines were completed in 2004 and 2006 respectively, allowing the development of distribution networks.

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

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

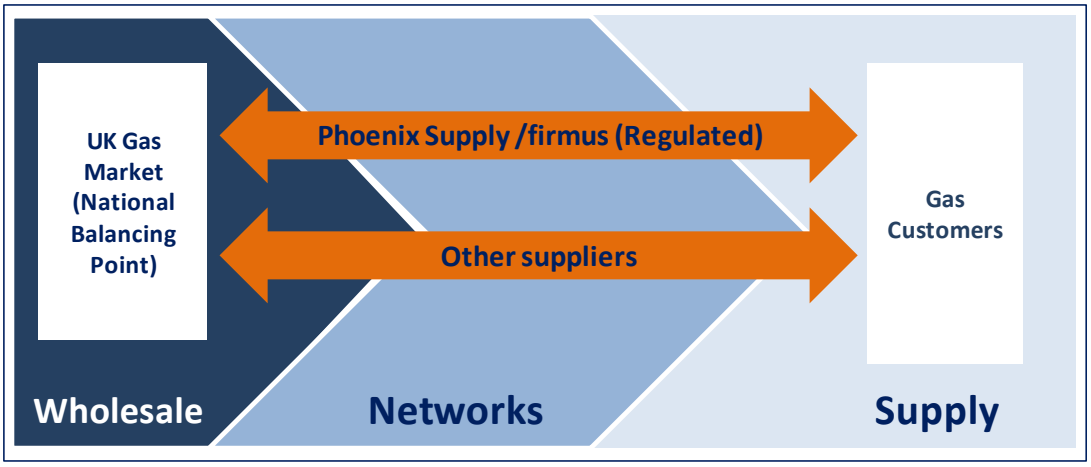
However, the availability of natural gas is desirable because of the environmental and social benefits. Natural gas as an energy option has the following advantages:

- Less atmospheric pollution: the use of natural gas as a fuel creates less CO_2 emissions than traditional generation (natural gas produces 25% less carbon dioxide emissions than other fossil fuels).
- Efficiency: the combined cycle power plants have an approximate efficiency of 55%, while in coal or fuel generation plants the comparative figure is approximately 30-35%.
- Security of supply: through diversification of energy sources.

Networks

The networks are the pipes and wires used for the transportation of gas and electricity to customers.

Figure 6 Structure of the gas sector in Northern Ireland



Source: UR

Electricity transmission and distribution networks

The Northern Ireland electricity grid comprises approximately 2,100km of transmission network and 42,900km of distribution network, including overhead lines and underground cables.

There are more than 840,000 customers connected to the distribution system, which links the three power stations and external interconnectors to 30 main substations. SONI directs the output of each generating unit on the Northern Ireland system to match supply to demand.

The transmission and distribution assets belong to NIE who are responsible for planning, developing and maintaining the transmission system in Northern Ireland. They are under the UR Price Control.

The transmission and distribution business derives its revenue principally through Use of System (UoS) charges levied on suppliers that use the transmission and distribution systems. The *Statement of Charges for Use of the Northern Ireland Electricity plc Transmission System* and *Statement of Charges for Use of the Northern Ireland Electricity plc Electricity Distribution System* are annually published by SONI after receiving the UR's approval. Charges are also applied for the System Support Services (SSS).

Interconnectors

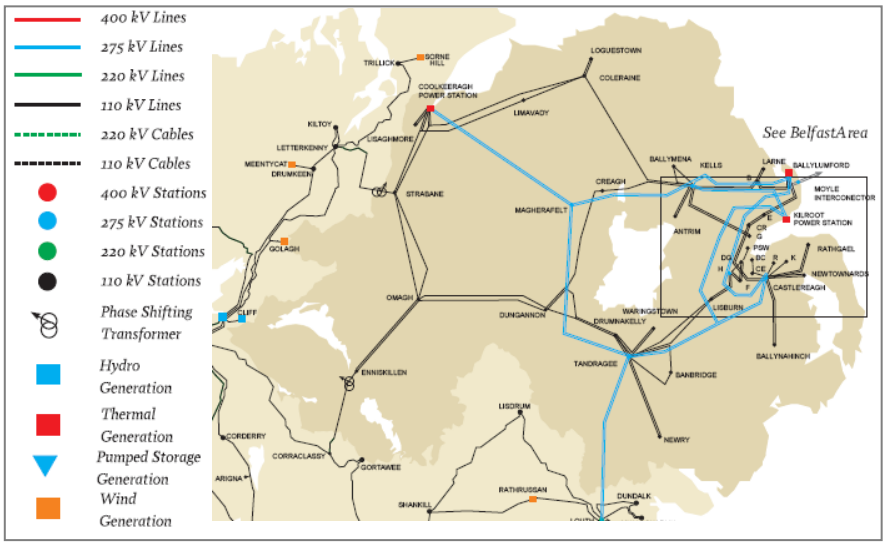
Northern Ireland's electricity grid is linked to the Republic of Ireland through one major interconnector between the two grids. The current Louth to Tandragee interconnector consists of a 275kV double circuit overhead line and it has an approximate capacity of 500 MW. The SEM High Level Design Decision Paper sets out that the North-South interconnector should be treated as a transmission line for the purposes of congestion management by the TSOs.

There are current plans to expand cross-border interconnection between Northern Ireland and the RoI. Increasing and expanding cross border interconnection through the building of the second North-South tie-line will help facilitate a more stable, secure and efficient all-island system. In the absence of the second tie-line consumers are facing higher costs due to a less than optimal dispatch of generators resulting in higher production costs and the requirement for a larger overall amount of installed generation capacity to meet the security of supply standards in both jurisdictions. Eirgrid and SONI have estimated the benefits currently being lost by the absence of a second North-South line to be in the order of €20m per annum. Any delays to the implementation of the additional tie-line will increase security of supply risks in NI.

There are also two small 110kV standby North-South interconnectors (Strabane - Letterkenny and Enniskillen – Corraclassy) which allow SONI and Eirgrid to provide mutual short term technical assistance.

In addition, there is the Moyle Interconnector, which holds the Moyle Interconnector Transmission licence. This transmission asset is treated as an interconnector for the purposes of SEM permitting capacity holders on Moyle to trade power between the SEM and BETTA markets.

Figure 7 Northern Ireland Electricity Transmission System



Source: SONI and Eirgrid

Gas transmission and distribution pipelines

In 1996 the original gas pipeline connecting Scotland and Northern Ireland was built (SNIP). Subsequently, two further transmission pipelines were built.

The North-West Pipeline was completed in 2004 to transport gas from Belfast to L/Derry, serve the Coolkeeragh power station and also enable the development of gas networks adjacent to the route. The South-North Pipeline was completed in 2006, running from Gormanstown, in the RoI, to Belfast, where it links into the North-West pipeline.

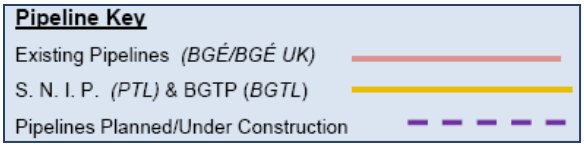
These pipelines have allowed the development of distribution and supply networks servicing a number of towns along the routes, known as the ten towns.

Currently all Northern Ireland demand is supplied via the SNIP, however, arrangements are in place to facilitate the use of the South-North Pipeline in the event of an emergency in Northern Ireland or in the RoI.

Figure 8 Moyle interconnector

Source: SONI (http://www.soni.ltd.uk/interconnector_moyle.asp).

Figure 9 The gas transmission network in Northern Ireland



Source: Joint Capacity Statement 2011

Northern Ireland has three gas TSOs, Premier Transmission Limited (PTL), Belfast Gas Transmission Limited (BGTL) and BGÉ (UK) Ltd. The transmission companies are required under their conveyance licences to prepare plans for the operation, development and maintenance of the transportation system.

Planning and development of the distribution network is the responsibility of the respective distribution system operators with development and capacity obligations set out in the respective licences. The Northern Ireland distribution system is comprised of two networks:

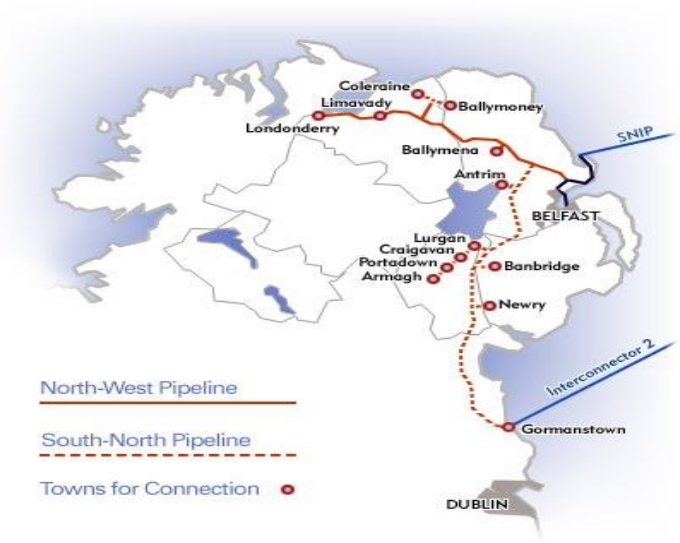
- The Phoenix Natural Gas network in the Greater Belfast and Larne area, which had around 145,000 connections at the end of 2011.
- The firmus energy network in the ten towns along the South-North Pipeline and North-West Pipeline which had about 13,000 connections at the end of 2011.

Figure 10 Maps of Northern Ireland gas distribution systems

Map of the Phoenix Area (all areas shown in colour)

Source: Phoenix Natural Gas Limited Licence for the conveyance of gas in NI[14]

Map of the BGE and firmus area



Source: firmus energy

For information on gas licences, please visit the following link: http://www.uregni.gov.uk/gas/

[14] PNG's licensed area includes also some other areas not shown in the map above. Those are detailed in the licence (http://www.uregni.gov.uk/uploads/licenses/GAS_Phoenix_Natural_Gas_Limited_Distribution.pdf).

Other gas developments: extending the gas network

Following an initial feasibility study and public consultation, the Department of Enterprise Trade and Investment (DETI) has continued to make progress on potential network extension. During the summer of 2012 the Department commissioned an Outline Business case which will form the basis of an approach to the Department of Finance and Personnel for government subvention in support of network extension. Any subvention will require approval by the Northern Ireland Executive Committee. Following Executive Committee approval the Utility Regulator will be responsible for carrying out a competitive process to award the necessary license(s).

PART TWO: CORE RETAIL INFORMATION

Introduction

As part of our ongoing monitoring of the retail energy markets, we quarterly collect, analyse and publish some key basic supply energy market information which we publish on our website through the Quarterly Transparency Reports (QTRs)[15]. These provide useful information on both Northern Ireland gas and electricity sector, related to the number of active suppliers in the market, switching activity, market shares of every supplier, and domestic price comparisons.

In this section of the annual report we show annual figures for those key elements. We have used the calendar year (January to December 2011) for ease of comparison between both electricity and gas sector, and also to RoI and GB. We have also included most recent information where available for some parameters (i.e. switching).

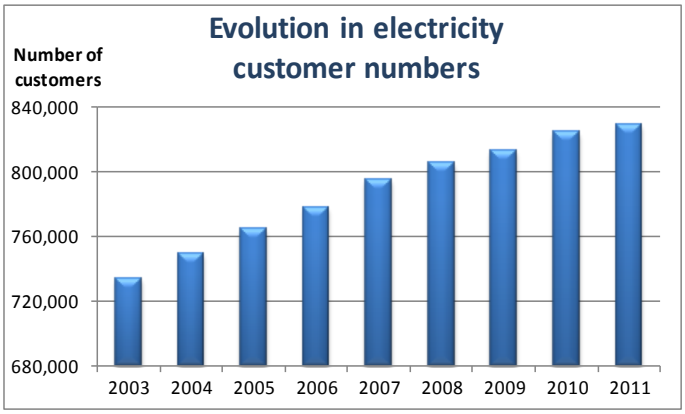
2. Retail orientated parameters

2.1. Retail electricity parameters

(i) Customer numbers (electricity)

By the end of 2011, there were more than 828,000 electricity customers in Northern Ireland (in comparison to 824,655 at the end of 2010). By June 2012 this number has increased more steadily to 842,574. Approximately 93% of these are domestic customers, while the non-domestic customers are around 7% of the total Northern Ireland electricity customer base. The evolution in the number of customers per calendar year is shown in the opposite figure.

Figure 11 Northern Ireland electricity customers



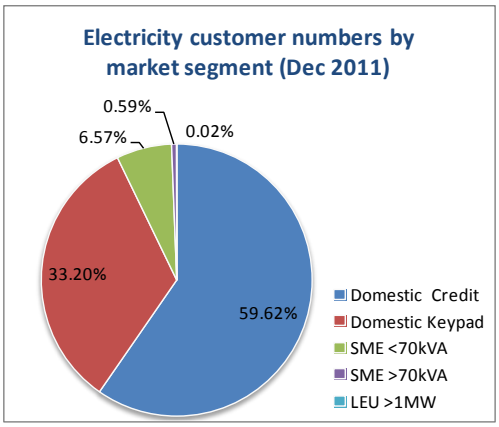
Source: NIE T&D

Further breakdown of customer numbers at the end of 2011 by market segment is shown below, in absolute figures and percentages. Within the domestic sector, the split shows that 33% of customers use keypad meters and that 60% of domestics are standard credit customers. In the non-domestic sector the largest number of customers are in the Small and Medium Enterprises (SME) category, which includes businesses with demand below 1MW per annum. This category further splits into those who consume less and more than 70 kVA, which aligns with the Statement of Charges for Use of the Electricity Distribution System[16].

[15] http://www.uregni.gov.uk/publications/view/utility_regulator_publishes_retail_energy_market_monitoring_report/
[16] http://www.nie.co.uk/suppliers/pdfs/DUoS_Statement_Oct10%20-%20Sept11.pdf

Figure 12 Customer numbers by market segment at the end of 2011

2011	Customer numbers
Domestic Credit	494,154
Domestic Keypad	275,178
SME <70kVA	54,434
SME >70kVA	4,849
LEU >1MW	172
Total	**828,787**

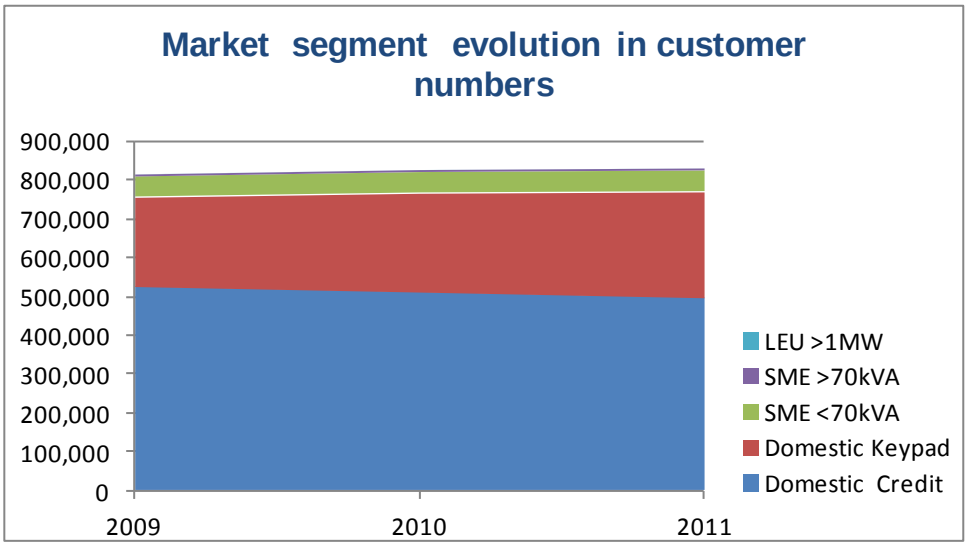


Source: NIE T&D

The percentages above showing the customer split by market segment have remained relatively stable over the last number of years.

Figure 13 below shows the evolution in customer numbers over the last two calendar years by customer segment. A very slight increase is noticeable in the percentage of keypad customers in comparison to other payment methods which may be attributable to the marketing of discounts offered.

Figure 13 Evolution in customer numbers by market segments



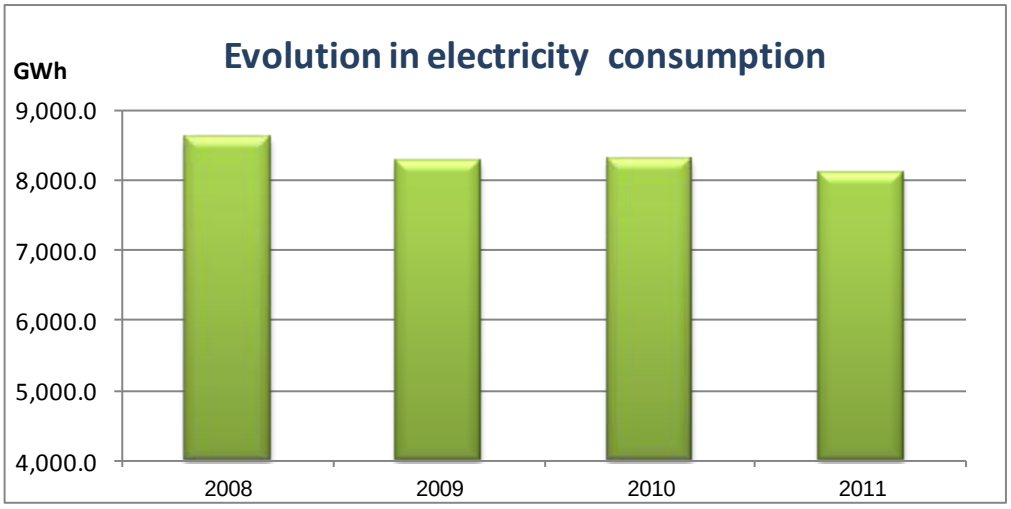
Source: NIE T&D

(ii) Demand/consumption (electricity)

Total electricity consumption in Northern Ireland since 2008 is shown in figure 14 below. Traditionally total electricity demand in Northern Ireland increases at an average rate of 2% per

annum. However, the last years have shown smaller increases and even decreases, probably due to generally poor economic conditions. The consumption in 2010 was 8,286.5 GWh, while consumption in 2011 was lower totaling 8,085.5 GWh.

Figure 14 Northern Ireland electricity consumption

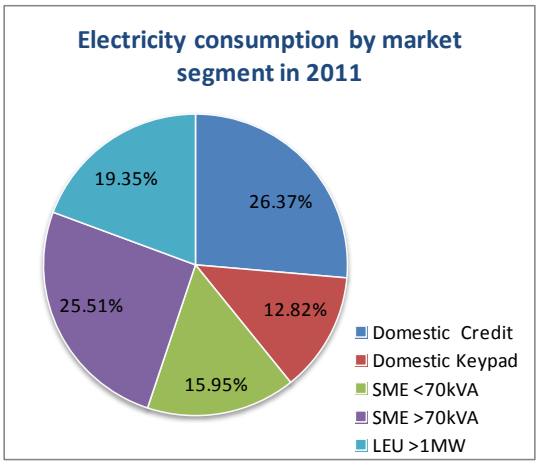


Source: SONI

A more detailed breakdown of consumption between the different market segments in the current year is shown below. During 2011, the electricity consumption was 39% in the domestic sector and 61% in the non-domestic sector, in comparison to a spilt of 40% and 60% in the previous year.

Figure 15 Consumption by market segment in 2011

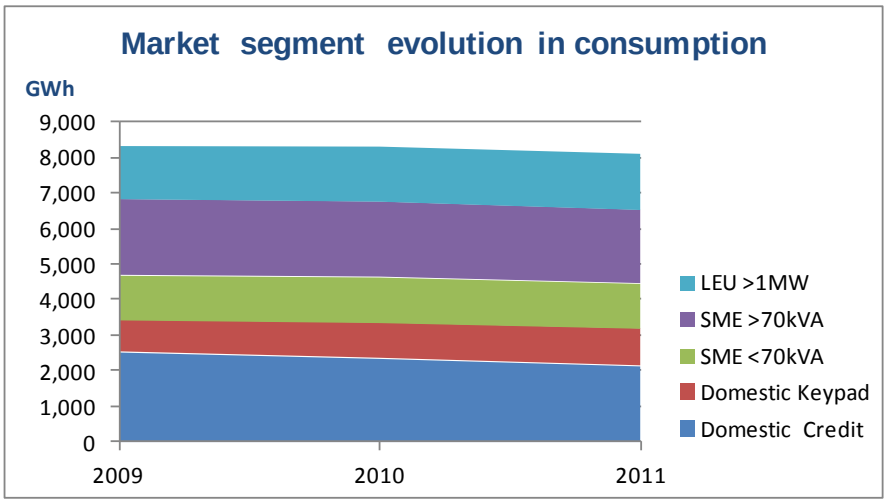
2011	Consumption (GWh)
Domestic Credit	2,132.39
Domestic Keypad	1,036.29
SME <70kVA	1,289.42
SME >70kVA	2,062.61
LEU >1MW	1,564.77
Total consumption	**8,085.49**



Source: NIE T&D

Figure 16 below shows consumption evolution over the last three years. It is noticeable that there has been a slight decrease on total consumption, across all categories except for keypad where there has been a slight increase.

Figure 16 Evolution in consumption by market segments



Source: NIE T&D

(iii) Market shares and switching rates (electricity)

Market shares

When promoting competition in the energy market, it is possible that the more concentrated the market is, it is more likely that this market is not functioning well and may not effectively protect customers. Therefore, the number of active suppliers and their associated market shares, could be considered as one of the indicators of the evolution of competition.

The UR report annually to ERGEG (European Regulators' Group for Electricity and Gas)/ACER (Agency for the Cooperation of Energy Regulators) on the concentration of the electricity (and gas) market through the following two indicators:

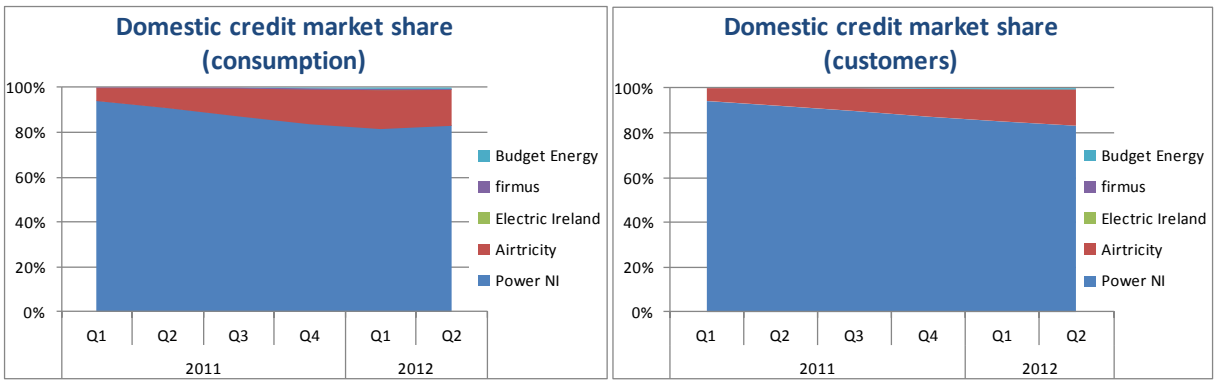
- number of companies >= 5% market share; and
- the market share of the three largest companies.

In 2011, there were 4 suppliers with a market share higher than 5% in the whole retail market by volume terms. The market share of the three largest suppliers was 82.1% - implying that the market is quite concentrated – and this is particularly the case in the domestic market.

The tables below show absolute and relative numbers for domestic credit customers - at the end of 2011 - and annual consumption over 2011, per market segment. The graphs show the quarterly evolution in market shares by both customers and consumption, in each of the electricity market segments.

Figure 17 Domestic credit market shares, by customer numbers and consumption

2011 Domestic credit	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	431,276	87.28%	1,900.49	89.12%
Airtricity	61,221	12.39%	223.65	10.49%
Electric Ireland	74	0.01%	0.04	0.00%
firmus	252	0.05%	6.85	0.32%
Budget Energy	1,331	0.27%	1.36	0.06%
Total	**494,154**	**100%**	**2,132.39**	**100%**



Source: NIE T&D

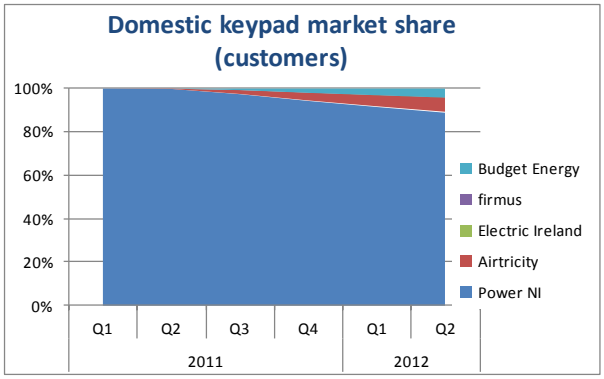
From the start of effective competition in the domestic market in June 2010, the share of the previously incumbent electricity supplier, Power NI, has been decreasing progressively. The table above shows Northern Ireland suppliers' market shares for 2011 and the graphs also show the shares for the first quarter of 2012.

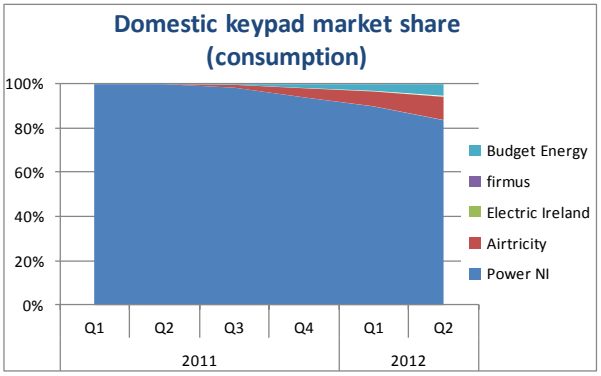
In terms of trends in market shares, at the end of 2011, Power NI's share in the domestic credit sector by customer numbers and consumption was 87.3% and 89.12% respectively, in comparison to 96.1% and 98.7% in the prior year. As the graph in figure 17 shows, this share continues to diminish by the second quarter of 2012 to 83.2% by customer numbers and 83.1% by consumption.

Despite the developing competition from new suppliers, Power NI remains very dominant in this sector – and hence as described in earlier sections, UR retains the price controls.

Figure 18 Domestic keypad market shares, by customer numbers and consumption

2011 Domestic keypad	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	259,581	94.33%	1,014.64	97.91%
Airtricity	10,391	3.78%	15.39	1.49%
Electric Ireland	2	0.00%	0.00	0.00%
firmus	0	0.00%	0.00	0.00%
Budget Energy	5,204	1.89%	6.26	0.60%
Total	**275,178**	**100%**	**1,036.29**	**100%**





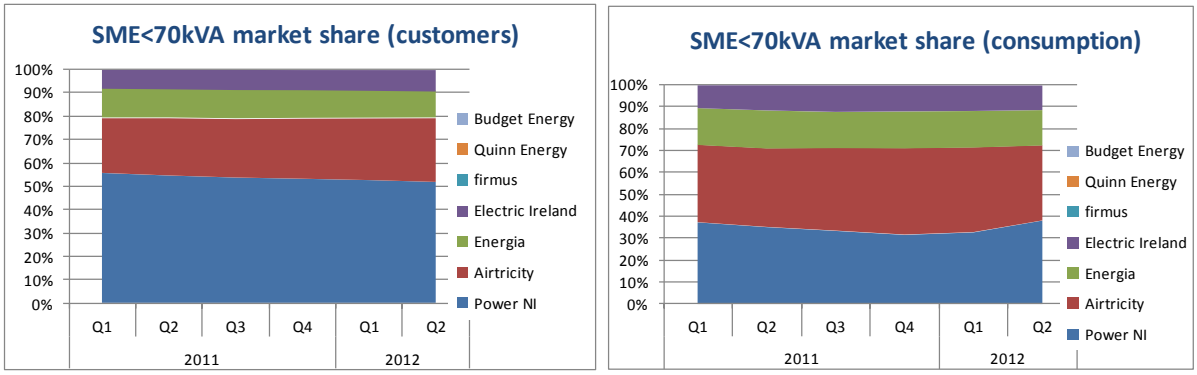
Source: NIE T&D

Competition in the prepayment electricity sector began in May 2011, when Airtricity launched their tariff offerings to keypad customers. A few months later, Budget Energy entered the domestic market including the keypad segment.

The presence of Power NI is still very strong, as the graphs above in figure 18 illustrate. In spite of this, new suppliers continue to increase their market share. By the end of 2011, new entrant suppliers represented 5.67% of market share (by customer) and 2.09% of market share (by consumption). By the second quarter of 2012 these new suppliers have continued to increase their market share representing 11.1% of market share by customers and 16.3% of market share by consumption. Budget Energy and Airtricity are quickly increasing their presence in this particular market segment. Most recent figures show that by the end of Q2 2012, they had a customer numbers share of 4.0% and 7.0% and by consumption 5.7% and 10.5% (respectively).

Figure 19 SME < 70kVA market shares, by customer numbers and consumption

2011 SME<70kVA	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	29,076	53.42%	439.73	34.10%
Airtricity	13,959	25.64%	481.42	37.34%
Energia	6,666	12.25%	214.83	16.66%
Electric Ireland	4,679	8.60%	151.70	11.77%
firmus	25	0.05%	1.41	0.11%
Quinn Energy	2	0.00%	0.12	0.01%
Budget Energy	27	0.05%	0.21	0.02%
Total	**54,434**	**100%**	**1,289.42**	**100%**



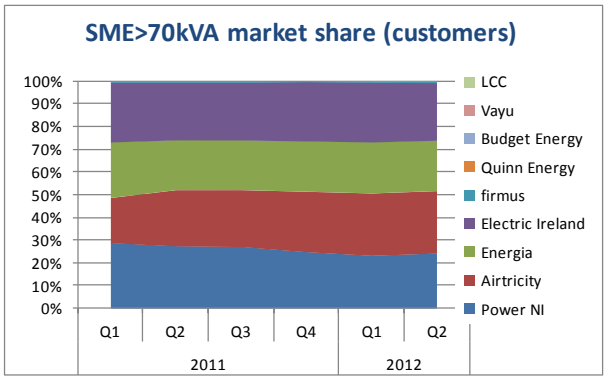
Source: NIE T&D

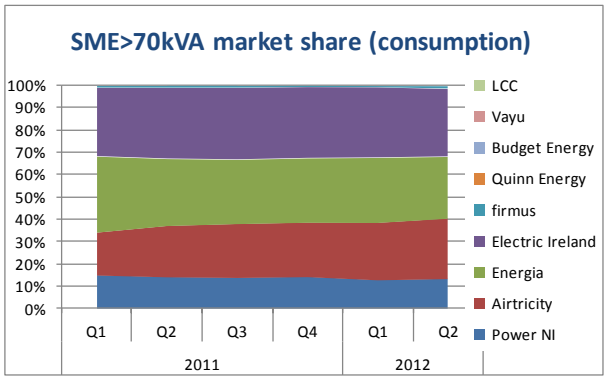
As the graphs above show competition in the small I&C electricity market is much more mature than in the domestic sector. There were seven active suppliers in this segment in 2011, although one (Quinn Energy) of these exited the market in early 2012. Energia is owned by the same ultimate controllers as Power NI – this is relevant when considering market power issues.

The combined market share in 2011 for the suppliers who belong to the Viridian Group, Power NI and Energia, were 65.66% by customer numbers, and 50.76% by consumption in the SME < 70 kVA market segment.

Figure 20 SME > 70kVA market shares, by customer numbers and consumption

2011 SME>70kVA	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	1,190	24.54%	291.13	14.11%
Airtricity	1,284	26.48%	464.91	22.54%
Energia	1,085	22.38%	631.70	30.63%
Electric Ireland	1,258	25.94%	655.43	31.78%
firmus	29	0.60%	17.76	0.86%
Quinn Energy	3	0.06%	1.68	0.08%
Budget Energy	0	0.00%	0.00	0.00%
Total	**4,849**	**100%**	**2,062.61**	**100%**





Source: NIE T&D

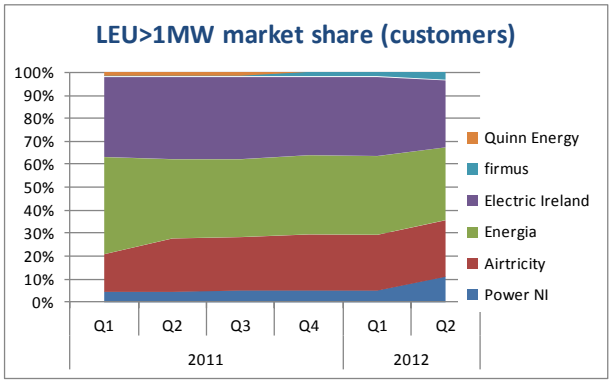
There were six active suppliers in the I&C customers over 70 kVA sector in 2011. By Q2 2012, the number of active suppliers has increased to eight, with the entrance of Vayu and LCC.

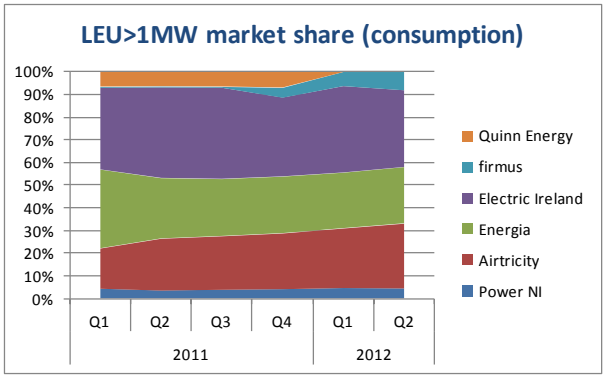
Over 2011, shares of the four main suppliers are very similar in terms of customer numbers, ranging from 22.4% to 26.5%. The distribution of shares in this market segment seems to be relatively stable over the last four quarters. The interval has a much wider spread when referring to the market shares by consumption (ranging from 14.1% to 31.8%) due to the fact that customer usage is much higher in this category.

In the SME > 70 kVA market segment, the combined market share for Power NI and Energia, the suppliers who both belong to the Viridian Group, were 46.92% by customer numbers, and 44.74% by consumption in 2011.

Figure 21 LEU > 1 MW market shares, by customer numbers and consumption

2011 LEU > 1MW	Customer numbers	Market share (customers)	Consumption (GWh)	Market share (consumption)
Power NI	9	5.23%	63.80	4.08%
Airtricity	42	24.42%	346.88	22.17%
Energia	59	34.30%	433.92	27.73%
Electric Ireland	59	34.30%	596.78	38.14%
firmus	3	1.74%	20.40	1.30%
Quinn Energy	0	0.00%	103.00	6.58%
Total	**172**	**100%**	**1,564.77**	**100%**





Source: NIE T&D

In 2011 the LEU market segment represented 0.6% of the total customer base in NI, with 172 customers, while their consumption was 19.4% of the total Northern Ireland electricity consumption in that year. Most recent figures show that by Q2 2012, the number of customers in this size band has increased to 187.

In 2011 there were six active suppliers in this market segment. (Quinn Energy withdrew from the market at the start of 2012, leaving five active suppliers in this category). The shares of three of the suppliers (Airtricity, Energia and Electric Ireland) in this segment have been quite stable over the year in terms of both customer numbers and consumption. Over the first half of 2012, Power NI's market share by customer numbers increased from 5.2% at the end of 2011 to 11.2%. Meanwhile, their share on consumption increased from 4.1% at the end of 2011 to 4.6% at Q2 2012.

firmus has also increased their market share over time. Their customer numbers at the end of 2011 was 1.7%, while their share by consumption was 1.3%. By the end of Q2 2012, their shares were 3.2% and 8.0% respectively.

Switching data (electricity)

We classify a switch when a customer changes supplier, and it is a free choice a customer makes to move from one supplier to another. For clarity, it can include the following:

- 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 switch to a competitive company of the incumbent and vice versa.

When a customer moves, a switch should only be recorded if a customer switches to a supplier other than the supplier which is the incumbent in the area where he/she is moving to.

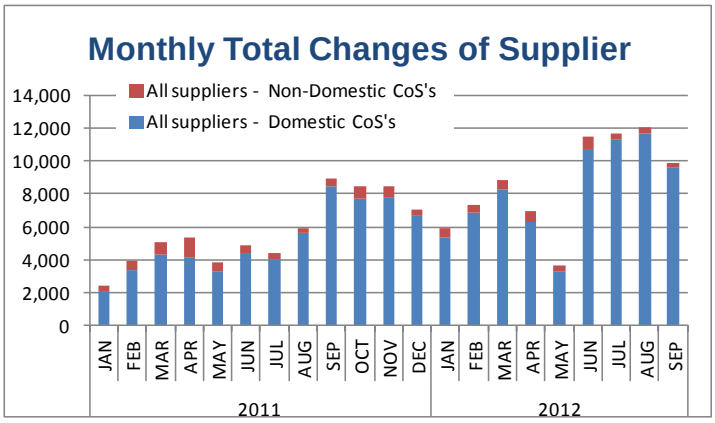
A change of tariff with the same retailer is not equivalent to a switch (therefore for clarity, the following examples do not constitute a switch: a change to a different tariff; a change from a regulated to a non-regulated tariff (or vice versa) with the same supplier or a subsidiary of the same supplier, or a change from a fixed to flexible tariff offering).

In NI, electricity domestic switches have continued to increase, particularly over the second half of 2011 and the first months of 2012. This was in response to the entrance of new competing suppliers in the market, and also to the removal of switching constraints. The complete removal of constraints occurred in May 2012, with the implementation of the Enduring Solution. The main objective of this project was to allow unlimited number of switches in the electricity sector (refer to section 4 for further detail on the objectives of this project). Figure 22 below shows how the switching trend has changed as a result.

By end September 2012, more than 135,000 electricity domestic customers have changed supplier since the effective opening of competition.

The figure below shows total changes of supplier in the electricity sector since October 2010 until the most recent figures available for 2012. The table focuses on 2011 monthly figures, split by domestic and non-domestic customers. Note that both table and chart below include new registrations (for example new builds).

Figure 22 Electricity domestic and non-domestic switches

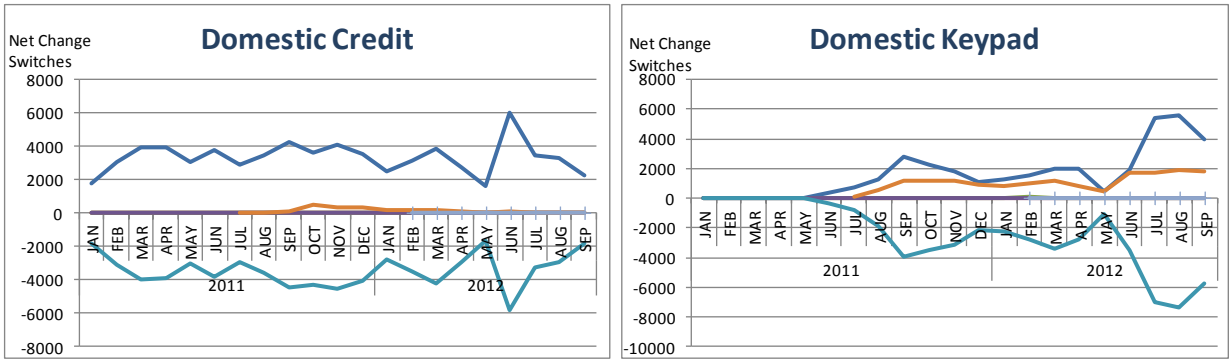


2011	Domestic CoS's	Non-Domestic
JAN	2,031	403
FEB	3,419	552
MAR	4,356	702
APR	4,174	1,154
MAY	3,313	529
JUN	4,388	469
JUL	4,026	413
AUG	5,613	349
SEP	8,461	510
OCT	7,745	706
NOV	7,838	631
DEC	6,643	450
Total	62,007	6,868

Source: NIE T&D

Figure 23 below show the net change of electricity switches (gains less losses plus new registrations) by supplier, from January 2011 to the last available figures of 2012. The figures have been broken down by market segment, in order to separately analyse switching activity within different groups/size of customers.

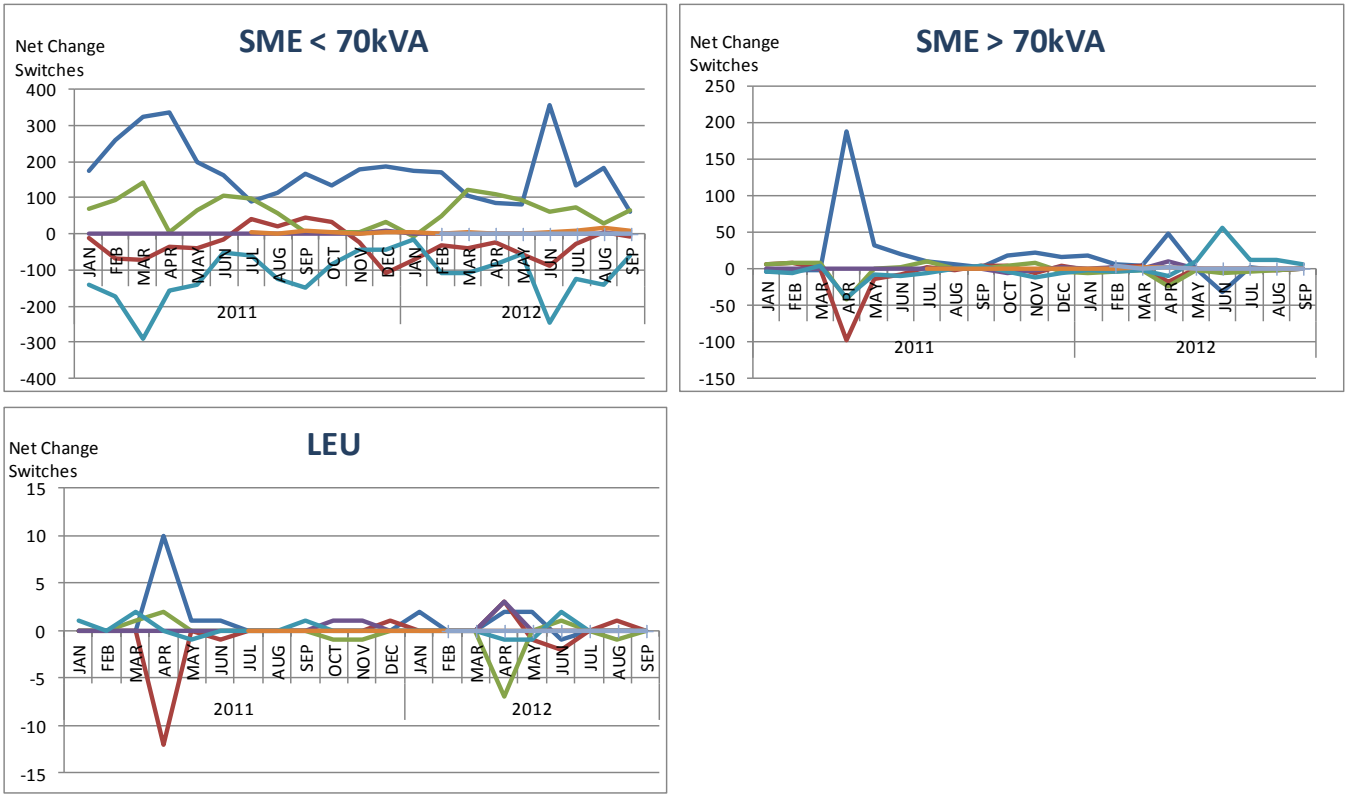
Figure 23 Evolution in electricity switching activity by market segments - Domestic



Source: NIE T&D

The net change of supplier in the domestic sector was on average around 5,000 switches in 2011. The average increased to 6,000 switches per month in the period January – May 2012, and to more than 10,000 switches from June to September 2012 (due to the removal of the switching constraints). Note that there was a sharp decrease in the month of May of this year due to a short period that switching activity was ramped down to enable the new Enduring Solution system to go live and be tested.

Figure 24 Evolution in electricity switching activity by market segments – Non Domestic



Source: NIE T&D

The switching activity in the electricity non domestic market is quite diverse depending on the specific market segment. From the start of 2011, there has been an average of 480 gains and 380 losses in the non domestic customers within the SME<70kVA category. These averages diminish to 55 and 48 in the SME>70kVA category, and to 3 in the larger electricity customers, in LEU category, due to the fact that as consumption increase, there are less customers in Northern Ireland in the higher size bands.

Survey work on attitudes

In May 2011 we published research[17] conducted among electricity and gas customers in Northern Ireland. The objective of the research was to "inform the development of a number of consumer projects going forward",and the research outcomes also inform policy and decision making-making across electricity and gas projects. The research was based on a face to face survey of a sample of 1,203 electricity and natural gas customers which includes a booster sample of 400 natural gas customers.

In terms of switching, saving money remains as the most important reason for switching main energy supplier. Supplier visits to households was the main method used to switch (54%), and from those who have switched, 95% found it easy to do so, and 40% would consider switching again.

Among the non-switchers households, 77% have never thought about switching, with 50% saying they are unlikely to switch their main energy supplier in the future, and 19% saying they are likely.

We aim to complete another customer survey in 2013/14 to reflect on any further changes in attitudes which will further inform our policy and decision making accordingly.

(iv) Methods of payment (electricity)

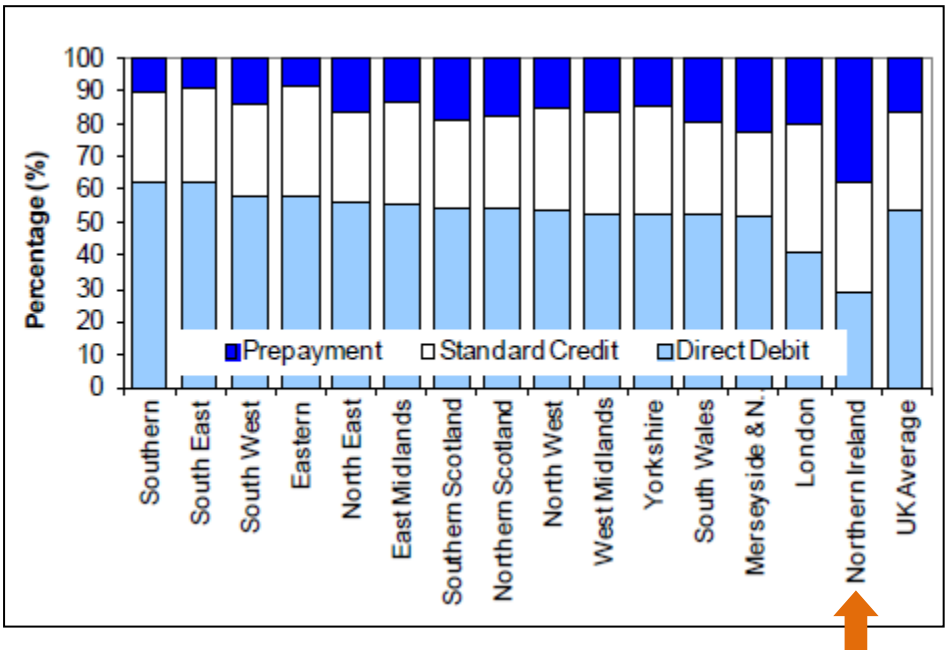
Domestic customers in Northern Ireland are able to avail of one of the following methods to pay their electricity (under their supply licence, all suppliers are obligated to offer all three payment methods under their supply licence):

- Prepayment (associated with a pay-as-you-go meter) where customers can top-up their electricity as they foresee their short-term consumption.
- Standard credit, where for example authority is given to the supplier to charge the customer each quarter with an amount equal to the quarterly bill.
- Direct debit, where a direct debit mandate is established instructing the supplier to debit the customer's bank account each month with a fixed amount, based on the expected annual cost of the bill, or each quarter with an amount equal to the quarterly bill.

The chart below shows the UK regional variation of payment method for standard electricity.

[17] http://www.uregni.gov.uk/uploads/publications/SMR_Customer_Research.pdf

Figure 25 Regional variation of payment method for standard electricity (March 2012)



Source: DECC. Quarterly Energy Prices, June 2012

In Northern Ireland prepayment meters are chosen by many domestic customers in preference to credit meters for other reasons than dealing with debt problems (for example due to their ease of use and help in household short term budgeting). Subsequently, Northern Ireland has the highest percentage of prepayment customers in the UK, being around 34%, and the lowest percentage of customers paying by direct debit. The prepayment method is the slightly more expensive option in England, Wales and Scotland, whilst in Northern Ireland the standard credit payment method is more expensive.

2.2. Retail gas parameters

(i) Customer numbers (gas)

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

The gas network in Northern Ireland continues to be extended. The number of connections (other than the power plants) by market segments in Northern Ireland in both gas networks by the end of 2011, are shown in the table below, and reflect an increase from 2011.

Table 5 Gas connections in Northern Ireland by Distribution Licensed Area

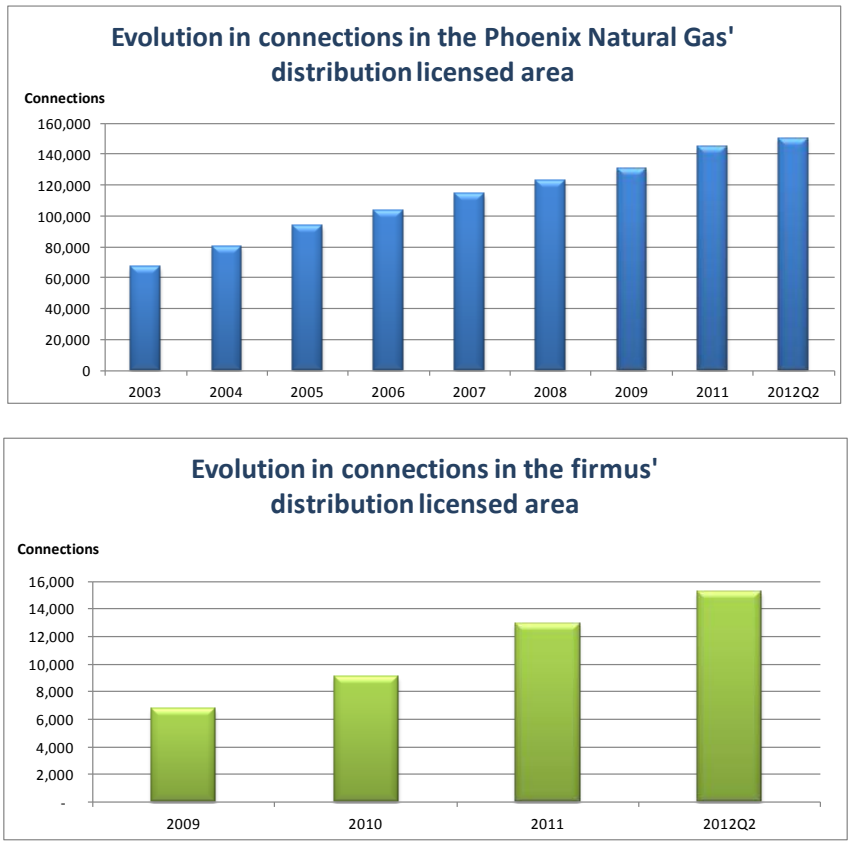
Gas customers connections 2011	Distribution Licensed Area	
	PNG	firmus
Domestic & Small I&C (EUC1)	141,729	11,813
Domestic credit		1,515
Domestic prepayment		9,836
Small I&C		462
I&C < 732,000 kWh (EUC2)	2,723	756
I&C > 732,000 kWh (EUC3)	290	135
I&C Daily Meter Readings	100	250
Grand Total	**144,842**	**12,954**

Source: PNG and firmus

The domestic sector represents the largest share of the total number of connections, with 98% of the total gas connections in PNG's distribution licensed area, and 91% in firmus' area.

By the end of Q2 2012, the total number of connections increased to 149,720 (an increase of 3.37%) and 15,209 (an increase of 17.4%) respectively in each of the licensed areas.

Figure 26 Evolution of gas connections in Northern Ireland by Distribution Licensed Area

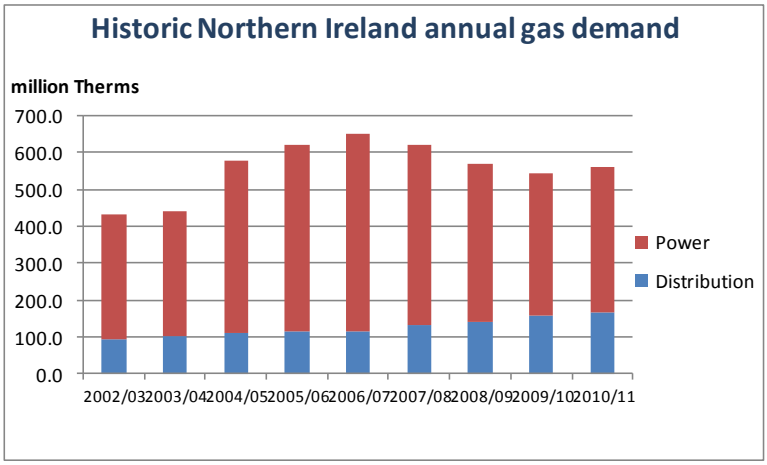


Source: PNG and firmus

(ii) Demand/consumption (gas)

Historical Northern Ireland gas demand is shown in figure 27. The category “Distribution” includes the gas demand of Phoenix Natural Gas and firmus energy, while the “Power” category includes the Ballylumford and Coolkeeragh power stations – both of which are fuelled by natural gas. The total Northern Ireland annual demand has grown by 33.96% over the eight year period 2002/03 – 2010/11 (or 3.77% p.a.).

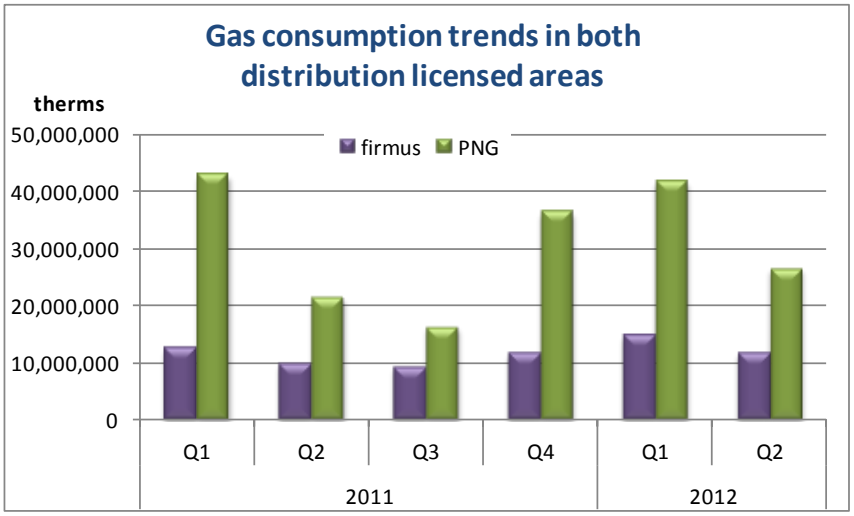
Figure 27 Historic Northern Ireland annual gas demand



Source: Joint Capacity Statement 2012

Quarterly gas consumption, from the start of 2011 to the second quarter in 2012, in both distribution licensed areas is shown in the figure below. Due to seasonality, consumption is considerably lower over the second and third quarters of the year, with increases in Q4 and again in the following Q1.

Figure 28 Evolution of gas consumption in the Phoenix Licensed Area



Source: PNG and firmus

(iii) Market shares/switching (gas)

The firmus distribution licensed area has just opened to competition (in October 2012) in the large non domestic market. So for the period shown, firmus energy have 100% market share in terms of both volumes and customer numbers, and in all customer categories.

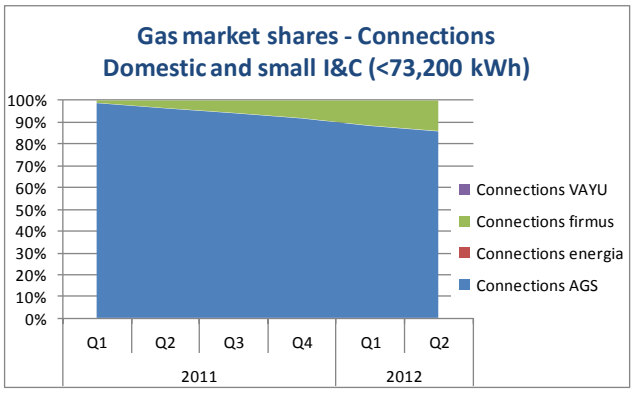
In the PNG distribution licensed area, competition started in 2007 and 2010 in both non domestic and domestic segments respectively. Competition in this distribution licensed area is still immature, as the incumbent supplier still retains a major share in terms of number of connections and volume consumed.

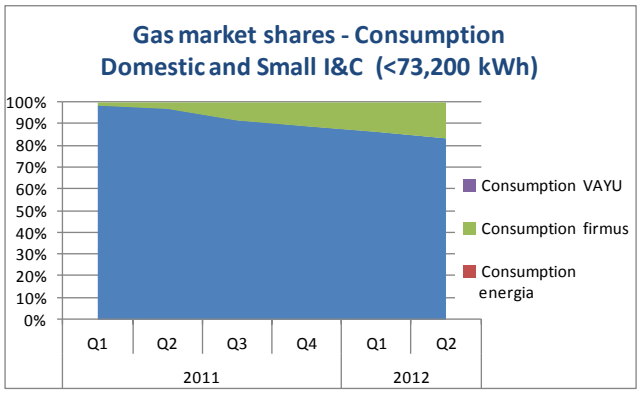
The tables below show absolute and relative numbers for connections - at the end of 2011 - and annual consumption over the same year, per market segment and per supplier. The graphs show the quarterly evolution in market shares by both, connections and consumption, in each of the gas market segments:

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

Figure 29 Domestic and small I&C (with consumption less than 73,200 kWh per annum) market shares in PNG's distribution licensed area

2011 Domestic and Small I&C (< 73,200kWh)	Connections	Market share (connections)	Consumption (Therms)	Market share (consumption)
AGS	130,182	91.85%	48,714,714	94.19%
energia	0	0.00%	0	0.00%
firmus	11,535	8.14%	2,986,569	5.77%
VAYU	12	0.01%	17,044	0.03%
Total	**141,729**	**100%**	**51,718,327**	**100%**





Source: PNG

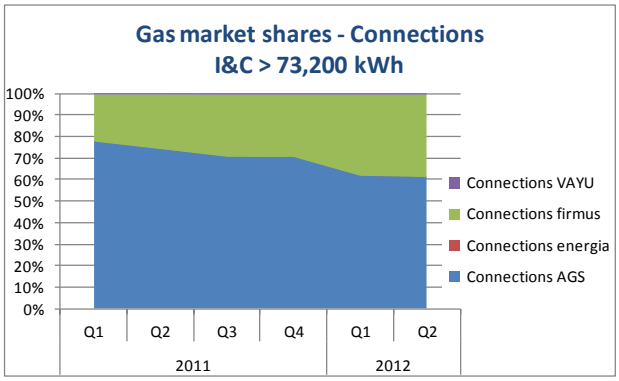
The table above shows absolute numbers and market shares in the gas domestic and small non domestic (with an Annual Quantity of less than 73,200 kWh, or 2,500 therms) sector over 2011. Although there are three active suppliers in that market, the shares of the main supplier (AGS, formerly Phoenix Supply) are still very high, being 91.85% in terms of connections and 94.19% in terms of volume consumed. Hence supply price controls are retained on this dominant supplier by the UR.

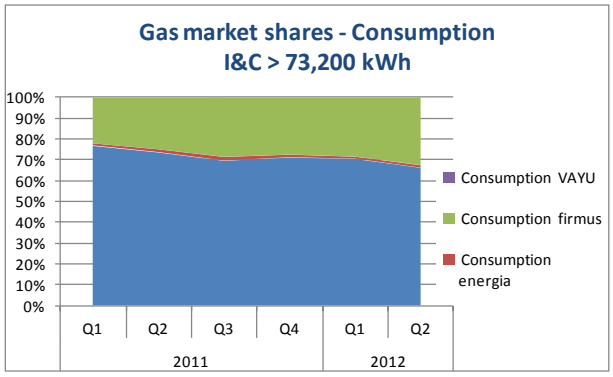
However, it can be seen in the graphs that this share is decreasing. By the end of Q2 2012, the shares of the incumbent supplier, AGS, had decreased to 85.9% and 83.2% respectively. The

number of connections in this market segment that had switched to firmus by the end of the second quarter of 2012 was 20,670.

Figure 30 I&C > 73,200kWh market shares in PNG's distribution licensed area

2011 I&C > 73,200kWh	Connections	Market share (connections)	Consumption (Therms)	Market share (consumption)
AGS	2,201	70.70%	47,569,248	73.51%
energia	2	0.06%	768,193	1.19%
firmus	899	28.88%	16,303,353	25.19%
VAYU	11	0.35%	72,764	0.11%
Total	**3,113**	**100%**	**64,713,558**	**100%**



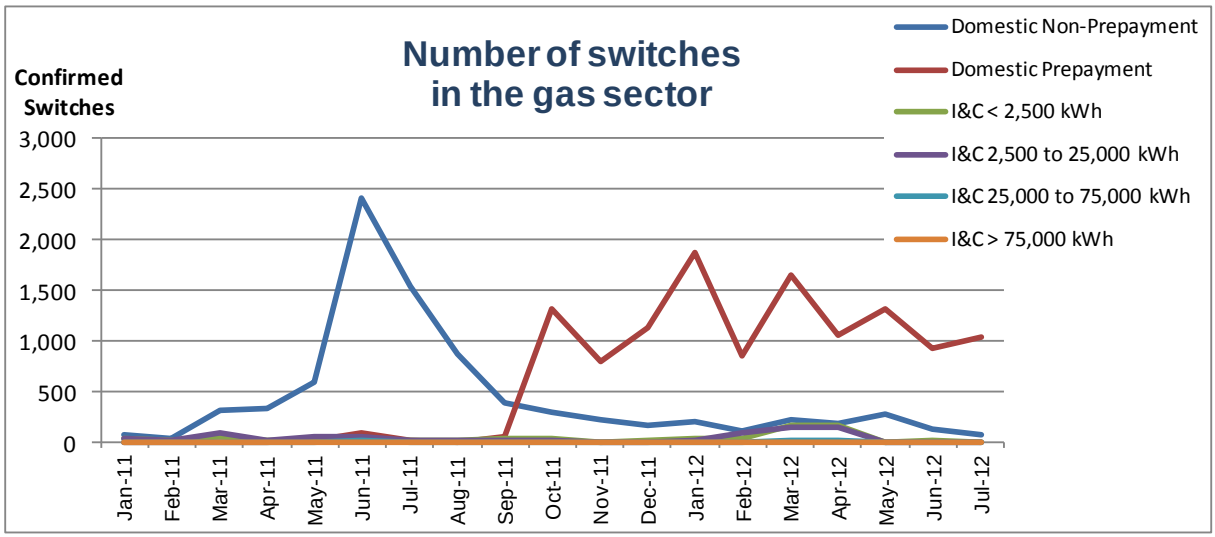


Source: PNG

In the non domestic market using more than 73,200 kWh per annum, the shares of the main non-incumbent supplier have experienced an increase in the last quarter. While firmus' share by connections was 28.9% and share by consumption was 25.2% at the end of 2011, by the end of Q2 2012, these shares had increased to 38.2% and 32.4% respectively.

There are 4 active suppliers in this market segment, although two of them, energia and Vayu, have a very small portion of the market, being lower than 1% by connections and lower than 2% by volume.

Figure 31 Switching activity in the gas sector (by number of switches).



Source: PNG and gas suppliers

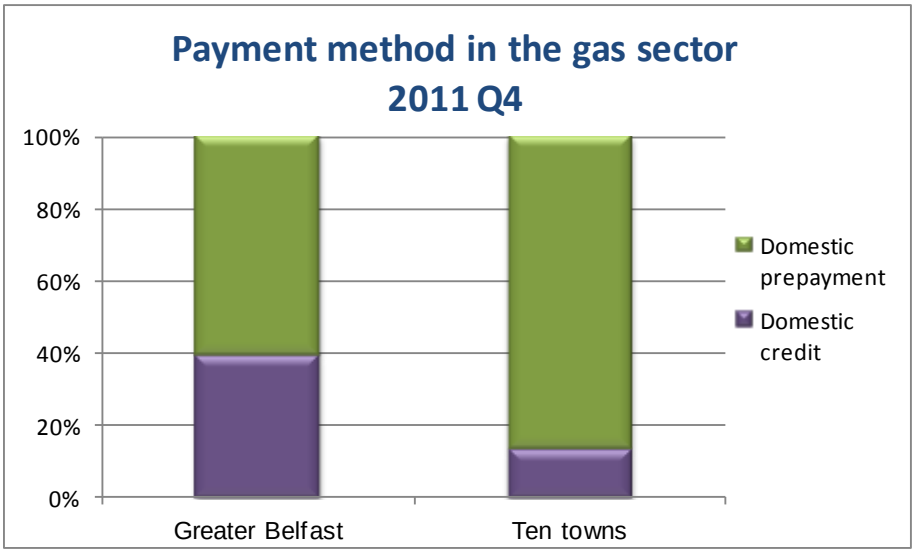
The figure above shows the switching activity in the gas sector since the start of 2011 until the last available figures of 2012. It reflects requested switches until Dec 2011, and confirmed switches from Jan 2012. There was a peak of requested switches in the domestic non-prepayment segment in June 2011, mainly due to the incumbent's increase of domestic tariffs at that time by 39.1%.

(iv) Methods of payment (gas)

Gas suppliers offer domestic customers a range of payment methods. Airtricity Gas Supply (NI) Ltd are obligated to offer a range of payment methods in their licence area. They offer their domestic customers a domestic home energy tariff, which can be paid quarterly or through direct debit (with the associated discount), and a pay as you go tariff. firmus also offer the direct debit payment method (using a fixed monthly payment or variable direct debit on a quarterly basis), and the prepayment option.

Figure 32 shows the percentage of gas domestic customers with prepayment meters and the percentage of customers paying by credit options. In the Greater Belfast and Larne distribution licensed area, the percentage of prepayment meters in the last quarter of 2011 is 60.9%, while for the same period, prepayment was higher in the ten towns area, with 86.7% of the connections. These percentages remain at approximately the same levels for 2012.

Figure 32 Split between payment methods.



Source: AGS and firmus energy[18]

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

3. Energy prices

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

In electricity, Power NI tariffs are regulated for customers who consume less than 150 MWh per annum. In gas, tariffs are regulated for those using less than 25,000 therms per annum.

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

3.1. Make up of a typical domestic bill

Electricity

For consumers who consume less than 150 MWh per year, Power NI publishes a range of tariffs which have to be approved by the UR. We take an active role in scrutinising and approving these retail tariffs, which are the final prices this group of customers pay. The tariffs are reviewed (usually annually, but it could be more often if necessary), and new tariffs usually commence on 1 October each year [19].

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

Table 6 Electricity tariff components

ELECTRICITY	Service	Regulatory Instruments/Scrutiny
Wholesale costs	Generation costs (costs of procuring electricity), capacity charges, imperfections (cost of electricity constraints) and market operator charges.	Competitive and regulated wholesale market, approval of Power NI hedging methodology and annual approval of Power NI wholesale costs by the Regulator. The capacity pot is regulated, being consulted on annually. SEMO Revenue & Tariffs 2012.
SSS charges	For system planning, operation and dispatch (SONI).	SONI Statement of Charges 2012 and SONI price control.
PSO levy	Public Service Obligation costs which must be spread across all customers.	NIE Energy (PPB) price control and annual approval of other costs.
Use of System charges	Costs of transmission and distribution of electricity across the wires network[20].	T&D Price Control. New Control being put in place for the period 2012-2017.

[19] Regulatory briefing on Power NI's tariff review - October 2012 (published in August 2012): http://www.uregni.gov.uk/publications/regulatory_briefing_on_power_nis_tariff_review_october_2012

[20] http://www.nie.co.uk/documents/Connections/NIE-Connection-Charges-Statement-October-2012.aspx

Supplier charges	Costs to supply electricity to customers e.g. billing.	Power NI supply price control.
NIRO costs	Net costs of Northern Ireland Renewable Obligation (NIRO), related to government obligation on suppliers to sell a proportion of their output as renewables.	Audited on behalf of the UR by Ofgem as part of its UK-wide audit.
Correction factor	The difference between allowed revenue and actual recovered revenue (mechanism whereby differences between forecasts for tariff-setting and actuals can be recouped or returned to customers) and first year effect.	Analysis of variances between forecasts used for setting tariffs and out-turn costs.
Margin	Allowed margin above costs for Power NI.	This is determined by the UR as part of price control.

Several of these components, such as market operator charges, System Support Service (SSS) charges, PSO levy, use of system charges, transmission and distribution charges, are common across all suppliers. As a result, the customer must pay these components regardless of who their supplier is.

These costs are regulated because they represent parts of the industry which remain under monopoly ownership and therefore not open to competition. Independent suppliers are free to enter the market and purchase power. However, they must add the components of the tariffs outlined above before setting the final price to sell to customers.

Gas

As competition is still immature, the price control over Airtricity Gas Supply (AGS) on gas supply applies to the domestic sector and to I&C customers who consume less than 25,000 therms per annum in the Phoenix's distribution area.

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

- firmus energy is still in the early stages of its development. With around 13,000 connections at the end of 2011, firmus is very much focused on growing their business and attracting as many new customers as possible. A necessary requirement to achieving this is to price as competitively as possible against alternative fuels (e.g. home heating oil).
- firmus energy is incentivised through the distribution price control to maximise volume throughput over the control period. To achieve this, firmus must price competitively in order to win new customers and increase the demand for gas flowing through its distribution network.

The large I&C market in the ten towns area opened to competition on the 1 October 2012. However supply for the small I&C and domestic market remains exclusive to firmus energy until April 2015.

In the gas sector, the components of the tariff differ from those in the electricity sector. The components of the gas supply tariff for Airtricity Gas Supply (NI) Ltd[21] are set out in the following table.

Table 7 Gas tariff components

GAS	Service	Regulatory Instruments/Scrutiny
Gas costs	This is the cost of the gas bought in GB, and is the most volatile component.	This is a pass through cost (a cost that the customers pay) and is reviewed at every tariff review by the UR.
Transmission charges	Costs involved in transporting gas from Scotland to Northern Ireland, via the SNIP, and transporting that gas through the Northern Ireland transmission system to the distribution network.	Tariffs approved by the UR and published every July.[22]
Distribution charges	Costs associated with moving gas throughout the Greater Belfast and Larne areas to homes and businesses.	Tariffs approved by the UR and published every September. Tariffs are based on the regulatory determination in the distribution price control[23].
Supply costs	This is the operational cost of running the supply business (i.e. billing, meter reading, staff, etc).	Costs are approved and published by the UR through price control.
"K" Correction Factor	As gas costs are forecast and fixed in advance, actual costs may differ from forecast and the difference is then included in the tariff. This can be positive or negative.	Analysis of variances between forecasts used for setting tariffs and out-turn costs.
Margin	Allowed profit margin for AGS. It is the amount of profit the supplier is allowed to make, and is currently set at 1.5% of turnover from tariff customers.	This is determined by the UR as part of price control.

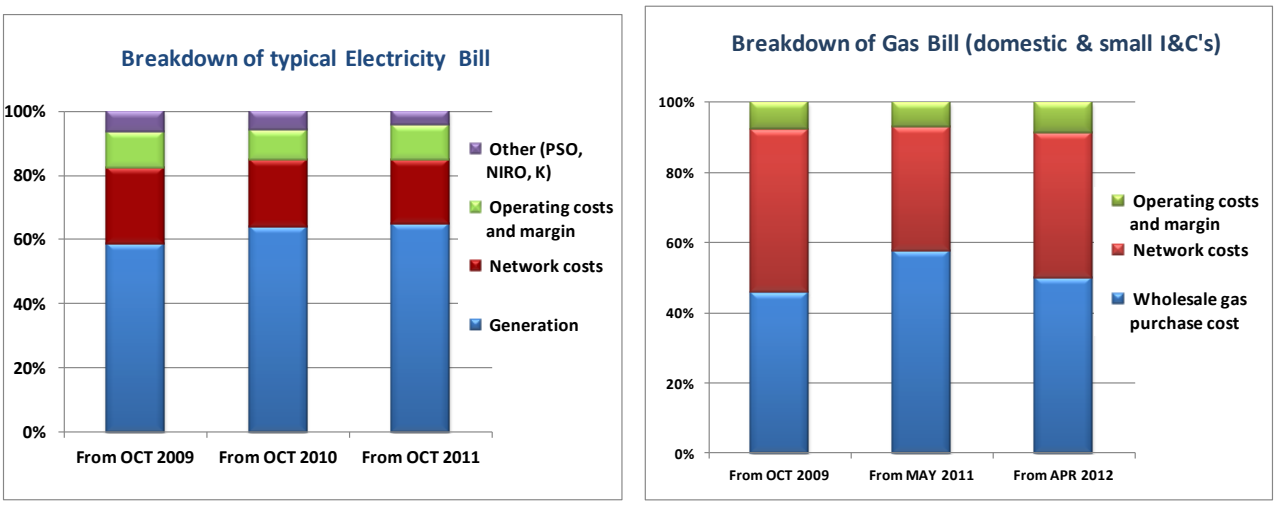
The constituent parts of an average domestic customer's bill

The relative importance of the various elements that make up final bills is shown in the following figures. They illustrate the percentage components of the electricity and gas[24] bills for regulated customers. The electricity chart relates to the required revenues of Power NI for all of its regulated customers for the year 2012-13 (starting in October). The breakdown of the gas bill corresponds to all AGS' regulated customers over the shown periods. Note the relative importance of generation/wholesale and network related costs in the final regulated prices,

[21] http://www.uregni.gov.uk/uploads/publications/Briefing_paper_-_Approval_of_the_Phoenix_Supply_Ltd_Tariff_-_web.pdf
[22] The transmission tariffs are published on the premier transmission website: http://www.premier-transmission.com/.
[23] These costs can be found on the Phoenix Natural Gas website.
[24] The make-up of the gas tariff in the graph relates only to the regulated tariff.

compared to the costs of the actual supply companies themselves (the latter being only around 10% of final price).

Figure 33 Make-up of regulated electricity and gas bill



Source: UR, Power NI and AGS

3.2. Electricity prices: evolution and comparisons

Electricity prices in Northern Ireland

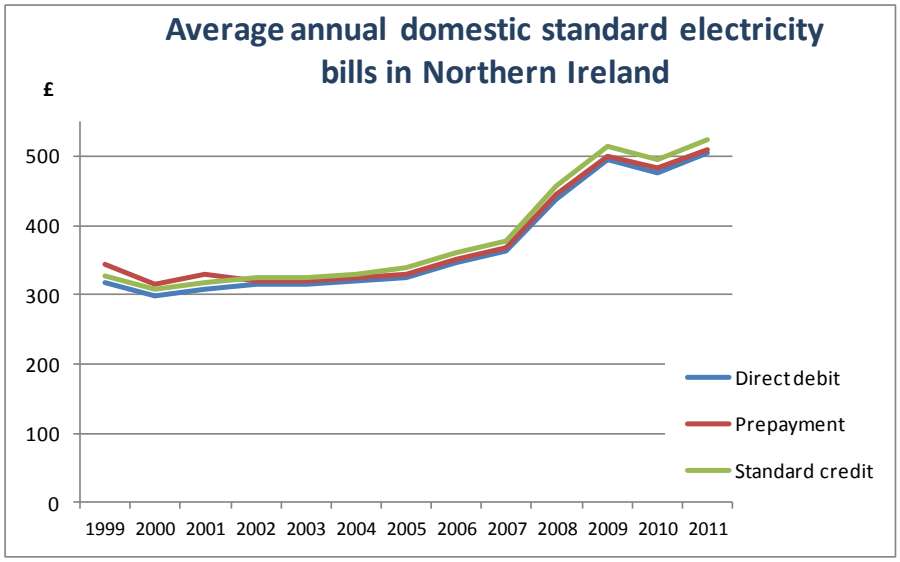
Regulated electricity tariffs in Northern Ireland still exist for customers who consume less than 150,000 units per year (equal to 150 MWh). For these customers, Power NI publishes a range of tariffs approved by the UR. Alternative suppliers compete for customers against these published tariffs.

The last tariff review[25] was published in August 2012, with effect from 1 October 2012. It set a 14.1% decrease in the Power NI tariff for domestic electricity customers. The previous review in August 2011 set a 18.6% increase.

Figure 34 below shows the average annual standard bills for Northern Ireland domestic customers since 1999. It relates to a total bill received in the year, e.g. covering consumption from Q4 of the previous year to Q3 of the named year. Those bills have been calculated assuming an annual consumption of 3,300kWh, and include VAT. The chart only shows figures to 2011, so the last prices change referred to earlier (-14.1%), are not included. Therefore, it reflects the 18.6% increase in prices that took place in October 2011 (and note not the most recent tariff review).

[25] http://www.uregni.gov.uk/uploads/publications/October_2012_Draft_Retail_Tariff_Background_Briefing.pdf

Figure 34 Average annual domestic standard electricity bills in Northern Ireland



Source: DECC, Quarterly Energy Prices.

Business customers who consume more than 150,000 units per year can obtain an individual quotation from each of the active electricity suppliers. The retail electricity prices paid by business customers within their contracts largely depend on three main factors that determine the price that a specific customer will pay for its electricity supply. These are:

- the time of day/year that the electricity is consumed at, which is known as the consumption profile. The higher the ratio of peak time units to off-peak units, the higher the average unit price will be. This is because electricity is more expensive to produce and transport at periods of high demand (note this does not apply to all customers supplied by Power NI on a regulated tariff);
- the voltage that the customer is connected. Lower voltage customers use more of the system than high voltage customers and therefore pay more; and
- the taxes that the supplier has to charge, which depend on the amount of green energy supplied and if the customer is in a 'climate change agreement' with the government. It is important to note that not all suppliers are subject to the same taxes. This should be examined in detail when comparing the quotations from different suppliers, to ensure that the lowest total cost option is chosen.

Comparison of electricity domestic prices with GB

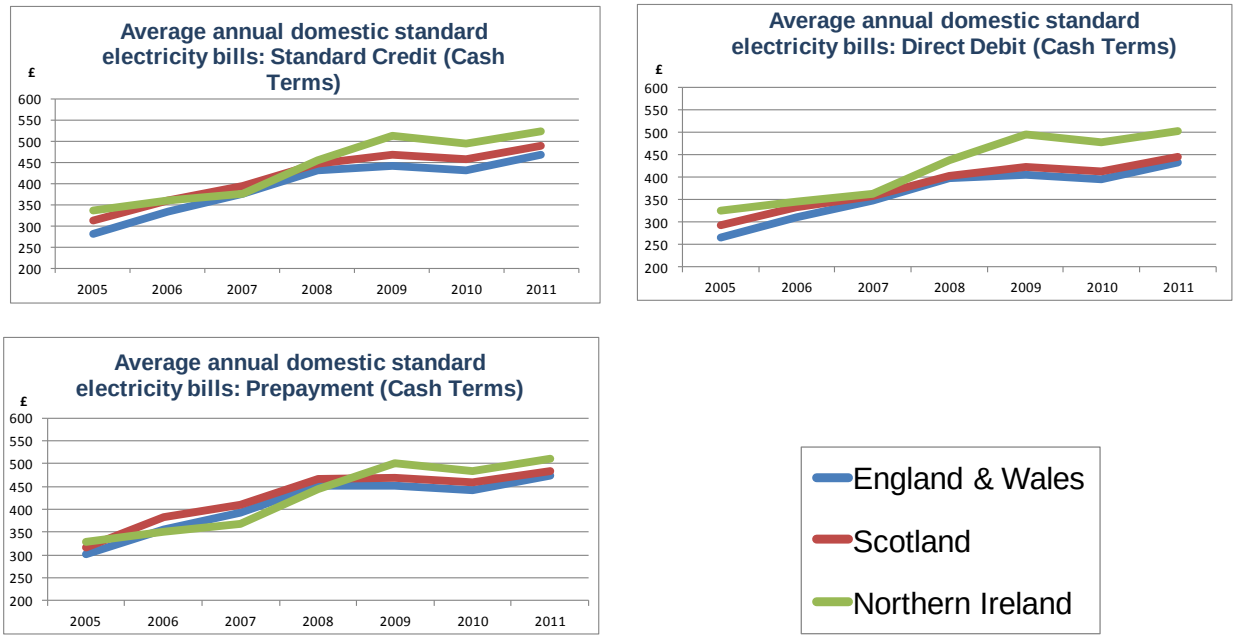
Historically, electricity prices in Northern Ireland have tended to be higher than GB. Key disadvantages that have led to higher prices in Northern Ireland are:

- Higher energy transport costs.
- Economies of scale in GB owing to the size of the market there compared to Northern Ireland.

- The additional cost of long- term legacy generation and associated contracts (not present in GB markets).
- The different fuel mix in GB (i.e. Northern Ireland has a reliance on gas while GB's generation mix is spread between nuclear, gas and coal).

The difference in prices between Northern Ireland and GB can be seen in detail in the following charts, which show the average annual standard bills for UK countries in the domestic sector, by different payment methods: direct debit, standard credit and prepayment. Note these graphs do not reflect the decrease in prices brought about by the most recent tariff review.

Figure 35 Average annual domestic standard electricity bills for UK countries, in cash terms.



Source: DECC, Quarterly Energy Prices. September 2011

Prepayment method is the slightly more expensive option in England, Wales and Scotland. However, in Northern Ireland, standard credit is more expensive, as prepayment has historically included a discount for domestic customers. The bills have been calculated assuming an annual consumption of 3,300kWh, and including VAT.

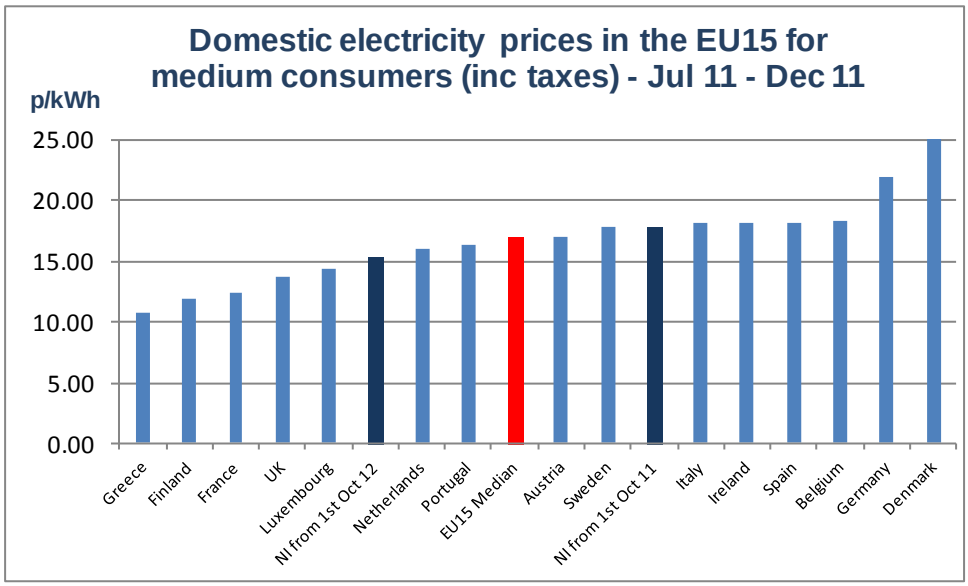
Price comparison at EU level

The following figure compares Northern Ireland domestic price (including VAT) with the most recent available prices for other countries in Europe.

There are two figures for Northern Ireland: the regulated tariff applying from 1 Oct 2011, for an average domestic customer consuming 3,300 kWh per annum (17.82p/kWh), and the new tariff to be applied from 1 Oct 2012 (15.31p/kWh), representing a 14.1% decrease.

The remaining data is from June 2012 DECC's report, for medium consumers (2,500 – 4,999 kWh consumption per annum). This data relates to the period July – December 2011 and the graph below shows that current (Oct 2012) Northern Ireland electricity domestic prices are above the UK price, just below the EU average price, and cheaper than in RoI.

Figure 36 Domestic electricity price comparison at EU level



Source: Power NI and DECC (Eurostat)

3.3. Gas prices: evolution and comparisons

Domestic and small I&C tariffs in Northern Ireland

The UR reviews the gas supply tariff in April and October each year. However, the UR retains the flexibility to have an ad-hoc review of gas prices at any stage if it is considered in the interest of customers.

In February 2012 the UR issued the conclusion of the review of the gas supply maximum average price for customers using less than 25,000 therms per annum in the Greater Belfast and Larne area. There was a decrease of 8.5% from the previous tariff (£1.2264 per therm) and this became effective from 1 April 2012.

firmus energy continued to track the AGS tariff in the Greater Belfast and Larne area and therefore also decreased prices by the same amount (8.5%) from 1 April 2012.

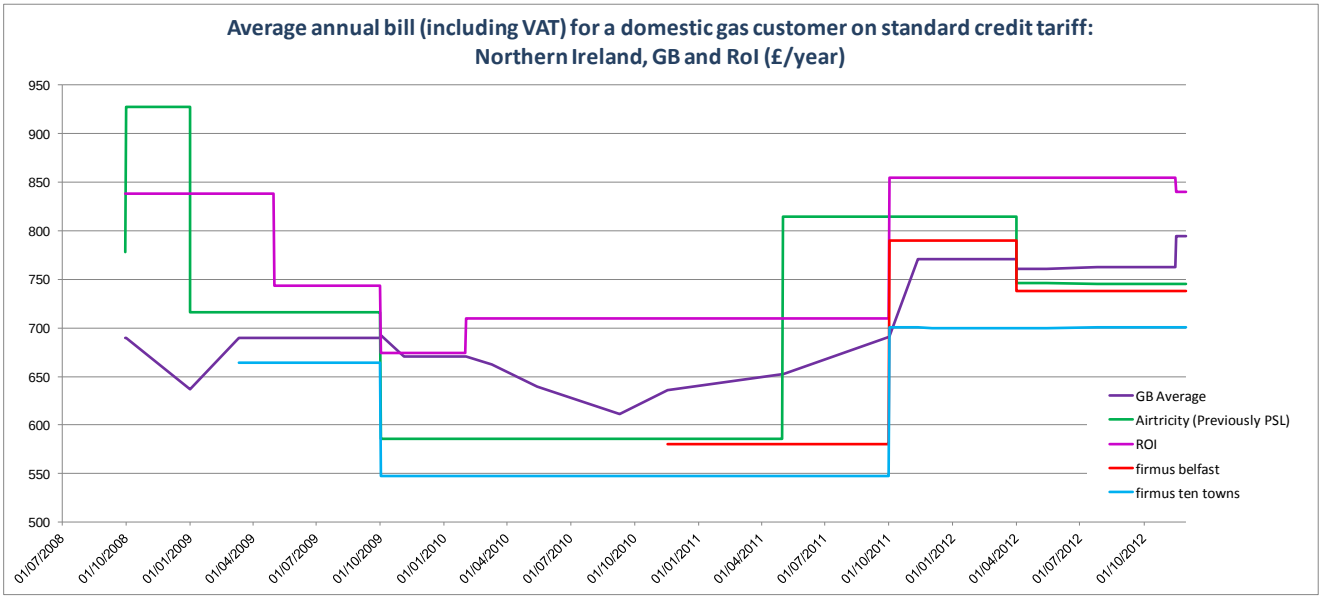
Gas price comparison with GB and RoI

Historically Northern Ireland prices have been higher than in GB, mainly due to factors such as the lack of indigenous supply, extra costs of gas transport from Scotland, recent infrastructure, etc. This trend changed in 2009 as a result of the almost immediate pass through of falls in prices to the customers from the price control in NI, and GB firms demanding greater margins. However in May 2011 there was a substantial increase in the tariff for AGS customers driven by an increase in wholesale gas costs. This resulted in prices in Northern Ireland rising higher than GB again. In 2012, AGS reduced tariffs by 8.5%, effective from April 2012 meaning that the AGS tariff was just under the standard average tariff in GB. ROI introduced an 8.5% increase from 1st October 2012, recently some gas supply companies in GB have announced that they will be increasing their tariffs in the near future, and if this comes about it will therefore increase the differential between Northern Ireland and the ROI and GB.

The graph below compares domestic prices for a standard tariff, from July 2008 to November 2012. It shows a GB average which includes the 6 big suppliers in GB. The annual usage estimate is 16,500 kWh. The tariffs used for comparison purposes are the standard tariff rates for domestic credit customers excluding any discounts available for payment by direct debit, viewing bills online etc.

The graph shows the price decreases announced by Airtricity Gas Supply (NI) Ltd (formerly Phoenix Supply) and firmus energy which took effect from 1 April 2012. The GB average in the graph shows the tariff increases which have been announced to take effect during October and November 2012.

Figure 37 Average annual bill for a gas customer on standard credit tariff: Northern Ireland, GB and RoI (£/year)



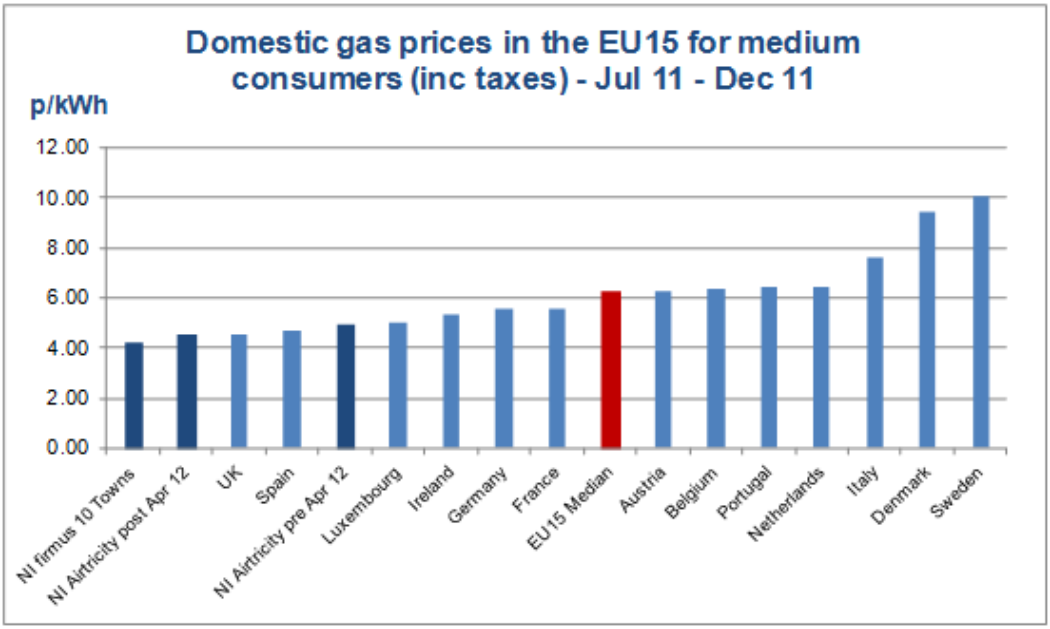
Source: UR

Price comparison at EU level

The following graph compares Northern Ireland domestic gas price with the most recent available prices for other countries in Europe (June – Dec 2011), including taxes.

The price used for Northern Ireland is based on the actual AGS tariff pre and post April 2012, and the tariff for 10 Towns customers, for a customer consuming 16,500 kWh per annum. The chart shows that Northern Ireland gas prices are among the lowest in Europe.

Figure 38 Domestic gas price comparison at EU level



Source: UR and DECC (Eurostat)

PART THREE: KEY RETAIL WORK AREAS

Introduction

In the Retail and Social Directorate, we continue to help to develop competition in energy supply in NI. Effective competition that can deliver consumer benefits remains a goal of the EU, UK and Northern Irish vision of energy retail markets. We have actively pursued a policy of creating a fertile environment for greater electricity and gas supply competition to emerge, particularly in market sectors where competition has been absent (domestic/households).

In 2009 the UR's Retail Directorate was created to prioritise relevant projects aimed at delivering effective supply competition, and the impetus is bearing fruit, with the emergence of Airtricity and Budget Energy as new competitors to Power NI in the domestic electricity supply market, and firmus energy competing with Phoenix Supply in the Greater Belfast gas market. This has been a welcome and ground-breaking development for customers, and we are hopeful of further entry into our energy retail markets by other suppliers in the short to medium term.

Earlier in 2012 we consulted on and then issued a strategic decision paper setting out our view of how we should regulate our energy supply markets. It noted the following main points and guiding principles.

Our statutory remit places a high value on effective competition as a means to deliver consumer benefits. Competition is a key feature, particularly in electricity where it is our primary statutory objective *'to protect the interests of consumers…wherever appropriate by promoting effective competition'*.

EU law is equally explicit about the central role of competition to deliver consumer benefit. Recent 2009 EU Directives[26] 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'*.

Revealed consumer preferences provided by our customer research also drive our policy, and much of our work was based in the evidence that Northern Ireland consumers wanted to have more choice of their energy supplier.

Beyond these policy drivers, whilst there is a significant level of competition in both electricity and gas markets for business customers, household customers until 2010 had no choice of electricity and gas suppliers. That has changed, but domestic competition is still immature.

Going forward, our overall philosophy in developing retail competition is to enhance, change and, where appropriate, reduce the regulatory framework in a way that seeks to crystallise and maximize consumer benefit from competition. We contend that this can be achieved through maximising the degree to which the energy retail market is truly contestable and competitive. Competitive entry (or the effective threat of it) and customer empowerment are the engines that can realise the benefits of competition.

The benefits from greater energy retail competition might include:

[26] 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.

- Innovation: new suppliers, with experience in other markets, are likely to bring to market different products that extend consumer choice. This will likely include “dual fuel” options;
- Service standards: Competitive pressures, combined with effective industry systems, should enable high service standards to be delivered flexibly and cost effectively. Regulation can only effectively set a single standard which might be the average of consumers’ wishes, while competition can allow different supplier and product offerings to differentiate service levels, with prices varying accordingly;
- Downward cost pressures: in the short term, from creating competitive pressure to reduce costs in supply, and to be more efficient in the procurement of wholesale energy. In the longer term, from dynamic efficiencies and improvements driven by competition at both the firm and sectoral levels.

Delivering truly contestable and competitive supply markets will be the driver for ensuring consumers benefit. But it is also important to emphasise that we are not ‘blinkered’ in our pursuit of enhanced supply competition. We need to move forward pragmatically and recognising the constraints and complexity of issues involved with delivering competition in a relatively small market like NI. Recent commentary from the much larger GB retail energy markets has questioned the effectiveness of competition at protecting consumers. We are concerned about the implications for Northern Ireland energy markets from this.

So, as a first guiding principle to future policy development, we believe that electricity retail competition can *potentially* deliver benefits for consumers, so long as it is: developed efficiently; delivers truly contestable retail conditions in all market sectors; delivers lower prices than regulation of the retail market would otherwise have achieved; and Northern Ireland consumers are empowered to fully engage with these markets. Thus our future regulatory approach and actions to currently regulated supply markets will be driven by clear and evidenced emergence of contestability and competitive potential in our supply markets. An enhanced framework for energy retail marketing monitoring will thus be a key priority for us going forward.

As a second guiding principle, we believe that strong regulatory frameworks should remain in place until contestability/competition is firmly evidenced and until we believe that customers in Northern Ireland can realistically expect to benefit from competition. As we go forward we need to try to ensure that all customers groups benefit from competition and switching opportunities, or at least are made no worse off. Where they do not, we need to ensure the regulatory structure continues to offer customer protection – competition where it is effective, regulation remaining where not. This is entirely aligned with our statutory duties.

The UR acknowledges that it is impossible for a Regulator in isolation to control the customer experience of a competitive market. However, as an ultimate goal, the “ideal” vision we have for a future energy supply customer environment is one where:

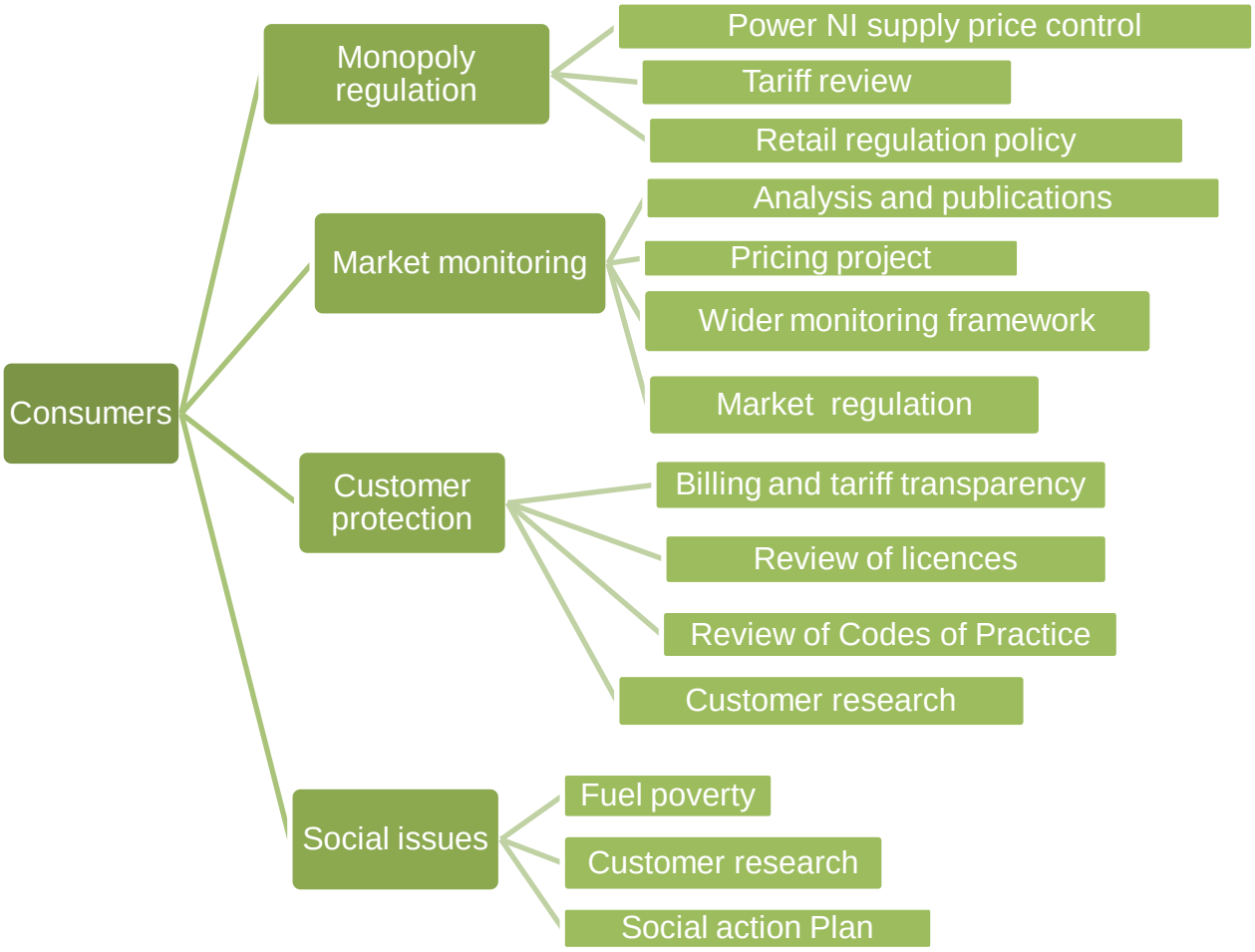
- Consumers benefit not just from competitive prices, but also from improved or differentiated service and tariff choices which better suit their requirements;
- Well-informed customers have clear knowledge and awareness of suppliers, products and tariff / service choices;

- Consumers can switch supplier quickly and simply;
- There is transparency regarding price, product and service, resulting in uncomplicated, high-quality decision-making by consumers;
- All sections of consumers either benefit from competition or are protected from being worse off by ongoing regulatory action (the latter might involve “backstop” price controls of the incumbent supplier that new entrants can beat; price controls for non-switchers; non-discrimination conditions, etc).
- We achieve and leave open entry from more supply businesses offering a greater diversity of product and service bundles and who can find commercial space to grow;
- Successful competition of suppliers would not be necessarily dependent on vertical integration.

Retail and Social Directorate

Retail and Social Directorate is made up of five main areas, as follows:

Figure 39 Retail and Social main projects



Source: UR

The following section describes in more detail some key areas/projects we have progressed over the last year, or intend to progress within our Directorate.

4. Monopoly regulation

Continued effective cost/price control of regulated energy supply companies

The UR published the consultation paper for the Power NI price control on 20 May 2011 which outlined our proposals for Power NI operating costs (staff salaries, billing costs, accommodation, IT costs, etc) and profit margin for the latest two year control. Amongst other respondents the UR received Power NI's response on the 15th July 2011. This response outlined Power NI's view on the UR proposals. The decision paper was then published after all responses had been received and assessed on 25 October 2011. The final allowances were agreed by Power NI and the appropriate licence modifications were put in place via the formal licence modification process.

The new price control allowances are then used in the formulation of Power NI overall regulated tariffs. The UR seeks to ensure that Power NI have sufficient operating cost revenues to run the business efficiently and to a high level in respect of service, and that the business receives a margin that adequately rewards investors. The UR needs to ensure that customers do not pay too much for either of these things and that they are set at appropriate levels. The control will continue in place until April 2014.

Tariff review and in-year monitoring

An important part of UR scrutiny is to agree with Power NI the level of the Power NI regulated tariffs each year. The review is carried out in July and August and the new tariffs are effective from 1st October. This process was carried out in July and August of 2012. The tariff effective from 1st October 2012 brought about a 14.1% decrease. A regulatory briefing paper fully explaining the movements in each component of the final tariff was published in September to inform all stakeholders of the reasons for this increase.

We also monitor the relationship between the tariff set and the recovery of revenues and the relationship with costs. If Power NI's revenues begin to significantly outstrip actual costs (because for example wholesale costs have turned out lower than was forecast at the time of setting the tariff) or vice versa, the UR will consider the need for an in year tariff review to prevent the build up of a large under or over recovery by Power NI that would need to be collected or given back in the subsequent tariff year.

Delivering the necessary systems and processes to allow effective retail competition to emerge and unconstrained customer switching capabilities: Enduring Solution

The Enduring Solution project follows major IT projects as far back as 2005 and had the following objectives:

- To support unconstrained customer switching in Northern Ireland electricity market;
- To provide full business separation for NIE and PowerNI;
- To replace major legacy systems approaching obsolescence; and
- To enable further harmonization between Northern Ireland and RoI.

The project progressed well throughout 2011 which saw the completion of the design phase and major inroads in the build phase, with successful completion in May 2012. The UR employed a quality assurance agent to oversee the project from a regulatory perspective and ensure

regulatory objectives were met. The project also afforded the opportunity for harmonisation of market messaging in Northern Ireland and Ireland. This project was progressed through the Harmonisation Steering/working groups which had been set up in 2010 to deliver this project. The Enduring Solution teams worked with ESB to draw up a harmonised schema of market messages which will facilitate suppliers in the north and south enabling them to operate in both jurisdictions using one system. This schema is going live in 2012.

Retail regulation policy

On 1 July 2011, we published a paper entitled “Regulatory Approach to Energy Supply Competition in Northern Ireland”. This paper set out our view as to how we best could fulfil our principal objective of protecting customers whilst also ensuring that competition could continue to successfully emerge in the domestic sector. The paper received responses from industry and the CCNI. The paper highlighted the issues that customers have faced in GB and the problems that competition can cause as well as the benefits including the danger of oligopolistic type behaviour amongst suppliers and the abuse of those customers who do not switch from their incumbent electricity supplier and do not engage the competitive market in a meaningful way.

The small size of the Northern Ireland market and the potential that there may be very few suppliers in such a small market was also highlighted as a risk to customers benefiting from effective competition in the near future.

In order to continue to give customers regulatory protection the decision paper published in 2012 laid out the UR plan to retain regulated tariffs for domestic and small business customers for the next 2 to 3 years and to consider ways in which customers can be protected beyond this point (if the current regulated tariffs are not retained) e.g. shadow or back stop price controls, price control for non switchers only. The paper also gave a commitment that the UR would continue to monitor the supply market and supplier market shares in various market segments to ensure that the scope of regulated tariffs was appropriate.

This was the first paper of its kind which gave indications of the UR intention for the coming years so that industry and all stakeholders could be aware of the UR policy in this area of energy supply which is currently undergoing rapid change. This gives certainty to suppliers and consumers as to at least what the short term holds.

Further stage 2 work will need to be done to decide how the policy can best be adapted going forward when competition sees market shares changing significantly in sectors of the market . This may also include an alternative form of regulatory protection for customers in a market without the current form of regulated tariffs.

5. Market monitoring

Analysis and publication of most relevant non-confidential energy retail figures

We undertake an ongoing collection and analysis of data related to the retail energy market. This data not only helps us in developing our monitoring role, but also allows us to be more transparent, by publishing information that, without being confidential, we consider relevant for our stakeholders, Northern Ireland customers or any other interest parties.

Our main sources are NIE, PNG and energy suppliers, but we also use and publish some information from other sources that can help us to understand our position in a wider scene. For example, in our publications we use figures from DECC, so we can compare Northern Ireland position in terms of EU energy prices in the domestic sector.

The monitoring papers we regularly publish are:

- The annual Energy Retail Report (ERR) - the current ERR is the 4th edition of its kind.
- The Quarterly Transparency Reports (QTRs). They give a more regular and factual insight of the current state of competition. With this quarterly release we intend to keep our audience well informed of the main relevant parameters (i.e. market shares, switching activity, etc) of the gas and electricity retail market. These reports are also a live tool as we keep improving them in light of readers' suggestions and our own internal necessities.

Through these publications, we look at what we do and what is happening in our markets and re-evaluate. But we also seek to engage with our audience, who are welcome to give us their feedback or submit their questions about the released figures.

Understanding Northern Ireland prices better, and comparing them to European prices

This project aims to develop a framework to collect, analyse and publish figures on electricity prices in the retail sector, covering both domestic and non-domestic segments. Our objective is to do that in a format that is easily comparable to information already published for GB, RoI and Europe.

This project aims to develop a regular and structured flow of relevant information from electricity suppliers, and calculates unit prices per EU customer size band. By doing this, we will gain insight into supplier behaviour for the electricity Northern Ireland market.

We intend to also try to disaggregate prices into their components, so we can understand the differences in prices with EU member states in terms of the price components elements.

Wider retail monitoring framework to better understand contestability issues

To effectively monitor the retail energy sector, a general, wider retail monitoring framework needs to be developed. This more comprehensive framework would help us, for example, to continue to understand if the market is working, if it is working for all consumers sectors/size bands, if competition is being supported, etc.

ERGEG understood that the Third Package strengthened the duty of the European National Regulatory Authorities to monitor market opening and competition. After public consultation, ERGEG published recommendations on good practice for retail market monitoring[27]. These recommendations were materialized in a set of indicators that can provide an informed basis for the regulators to evaluate the development of their retail energy markets.

When developing our wider framework, it is key that we continue to consider the following:

- How the collection of the information is going to affect the relevant companies.
- How we will use the information, and what aspects we want to cover.
- Proportionality.

[27] http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/CUSTOMERS/GGP%20retail%20market%20monitoring/CD

Market regulation

Regulation of the market includes continual review of Northern Ireland supplier behaviour using the retail database to monitor the market, review of supplier licence compliance, monitoring of supply tariffs and retail complaints. We also facilitate new supplier entry and work with suppliers on their codes of practice.

We watch the retail markets in RoI and GB closely in order to understand the issues arising, what we can learn and if there is any impact on our policies.

During the next year we hope to undertake a benchmarking project on I&C customers protection to ensure the measures are fit for purpose.

6. Customer protection

Review of licences

In September 2012 the Utility Regulator published a decision paper on a number of changes to all licences which were designed to improve consumer protection in Northern Ireland.

The changes came from a review of the licences that UR carried out as part of implementing the EU's third set of energy Directives, known as IME3. Implementing the Customer Protection provisions of IME3 has helped to optimise the customer protection framework, for example in terms of Codes of Practice for suppliers, transparency of information, billing and the protection of vulnerable customers.

The resulting changes included:

- better protection for consumers in debt or struggling to pay their bills;
- better information for customers;
- better protection against unfair or misleading marketing techniques;
- easier switching; and
- an improved framework of codes of practice which will be reviewed, monitored and enforced.

As part of the changes brought about by IME3, on 30 November 2011 we published the first ever consumer check list. Over the coming months we will update, monitor and improve the consumer checklist which will continue to be published on our web site and made available to all customers. Now that the new licence modifications have come into effect, over the coming months the UR intends to:

- consult on and publish a code of practice on marketing which suppliers will be required to sign up to and adhere to (this is a new code of practice);
- consult on and publish guidance and minimum standards for all other codes of practice; and
- consult on and publish a monitoring framework to ensure that the standards in the codes of practice are met.

Transparency of billing guidelines

It is our intention to examine the transparency of bills during the year 2013-14. Bills are a key source of information for energy customers and are an essential to maintain an active role in a competitive market. An electricity or gas bill should be a simple and clear source of information for customers and help them **understand how much energy they are using**, the **actual cost** of the energy which they have used and to compare with other offers available in the market. In

particular we will examine whether the bills are easily understood by vulnerable customers, whether customers are being given the information they require and whether the information is clear and transparent.

7. Social issues

In carrying out all of this work we continue to engage with customers and organisations representing customers, particularly vulnerable customers. This includes the CCNI and others. Better engagement, for example ensures that the codes of practice identify and target those safeguards that are necessary to protect customers. It will also ensure that the UR takes a proportionate and consistent approach to the protection of customers. As part of this we will continue to take part in a number of forums such as the Department of Social Development (DSD) Fuel Poverty Partnership.

The main projects we conduct in this area are:

Fuel poverty

We continue to contribute to the Northern Ireland government's efforts to eliminate fuel poverty by ensuring that electricity and gas bills are a low as they can be, ensuring that customers are given accurate information to enable them better control of the amount of electricity and gas they use, promoting energy efficiency through the licences and through the Northern Ireland Sustainable Energy Programme (NISEP). We also continue to work with the DSD through their Fuel Poverty Partnership to identify new and innovative solutions to fuel poverty and to consider the implications of fuel poverty in developing the 2013 – 2016 Social Action Plan.

Energy brokering

The UR does not have the vires to promote energy brokering, however we will continue to provide information to those who do. Any supply licence holder which wishes to bring a proposal for energy brokering would need to ensure that they behaved at all times in a manner consistent with their licences and also with competition law. Provided there remains no legislative or licence prohibition on a particular action, the Utility Regulator would seek to be as helpful as possible in this area.

Social Action Plan review to be completed

In developing the Social Action Plan (SAP) for 2009 – 2012, the UR reviewed existing licences and activities that had been undertaken to assist and protect vulnerable customers. As part of the review of the Plan, each directorate reviewed their work, identifying what has been achieved under the themes:

- Reducing financial insecurity;
- Equal access to utility services for vulnerable groups;
- Energy and water efficiency; and
- Working with others.

Additionally, one to one meetings were held with stakeholders representing some of the key groups identified within the Social Action Plan. The aim of these meetings was to review not only

how our activities have impacted these groups but also to scope out what our future plans should be with regard to the next three years of the SAP. This forms the basis of our review which is to be published in the coming year. The SAP (2013/14) will take a strategic view at the manner in which the Utility Regulator addresses its duty to have due regard to vulnerable customers while considering the requirements outlined in the Corporate Strategy, Forward Work Programme and areas highlighted by stakeholders and within each directorate.

Glossary

AGS	Airtricity Gas Supply
BETTA	British Electricity Trading and Transmission Arrangements
CAG	Common Arrangements for Gas
CCGT	Combined Cycle Gas Turbine
CCNI	Consumer Council for Northern Ireland
CER	Commission for Energy Regulation
CHP	Combined Heat and Power
DECC	Department of Energy and Climate Change
DETI	Department of Enterprise, Trade and Investment
ERGEG	European Regulators' Group for Electricity and Gas
EU	European Union
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.
QTR	Quarterly Transparency Reports
LEU	Large Energy Users
OCGT	Open Cycle Gas Turbine
Ofgem	Office of the Gas and Electricity Markets
OFT	Office of Fair Trading
PNG	Phoenix Natural Gas
PSL	Phoenix Supply Limited
PSO	Public Service Obligation
PTL	Premier Transmission Limited
Q	Quarter
RES	Renewable Energy Sources
ROC	Renewables Obligation Certificate
RoI	Republic of Ireland
RPI	Retail Price Index
SEM	Single Electricity Market
SEMO	Single Electricity Market Operator
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
WACC	Weighted Average Cost of Capital

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