

# Tariffs 2009-10

Energy Tariffs Briefing  
Wednesday 26<sup>th</sup> August

# Introduction

Iain Osborne

CEO

Utility Regulator

# Agenda

- Gas Tariff Review Process – Brian McHugh (Utility Regulator)
- Electricity Tariff Review Process - Kevin Shiels (Utility Regulator)
- Electricity Retail Tariff Information - Stephen McCully (NIEES)
- Questions & Answers
- Next Steps & Close – Iain Osborne (Utility Regulator)

# Energy Tariffs Briefing

## Tariff Review Process for Phoenix Supply Ltd. (PSL)

October 2009

Brian McHugh

Director of Gas

Utility Regulator

[brian.mchugh@niaur.gov.uk](mailto:brian.mchugh@niaur.gov.uk)

# Aim of Presentation

- This presentation will explain the process by which the maximum price for PSL tariff customers is set.
- It will examine how the tariff is built up and the role of the regulator in approving it.
- It will not deal with what the actual tariff might be this Autumn nor reopen the policy decisions on which the tariff is based.

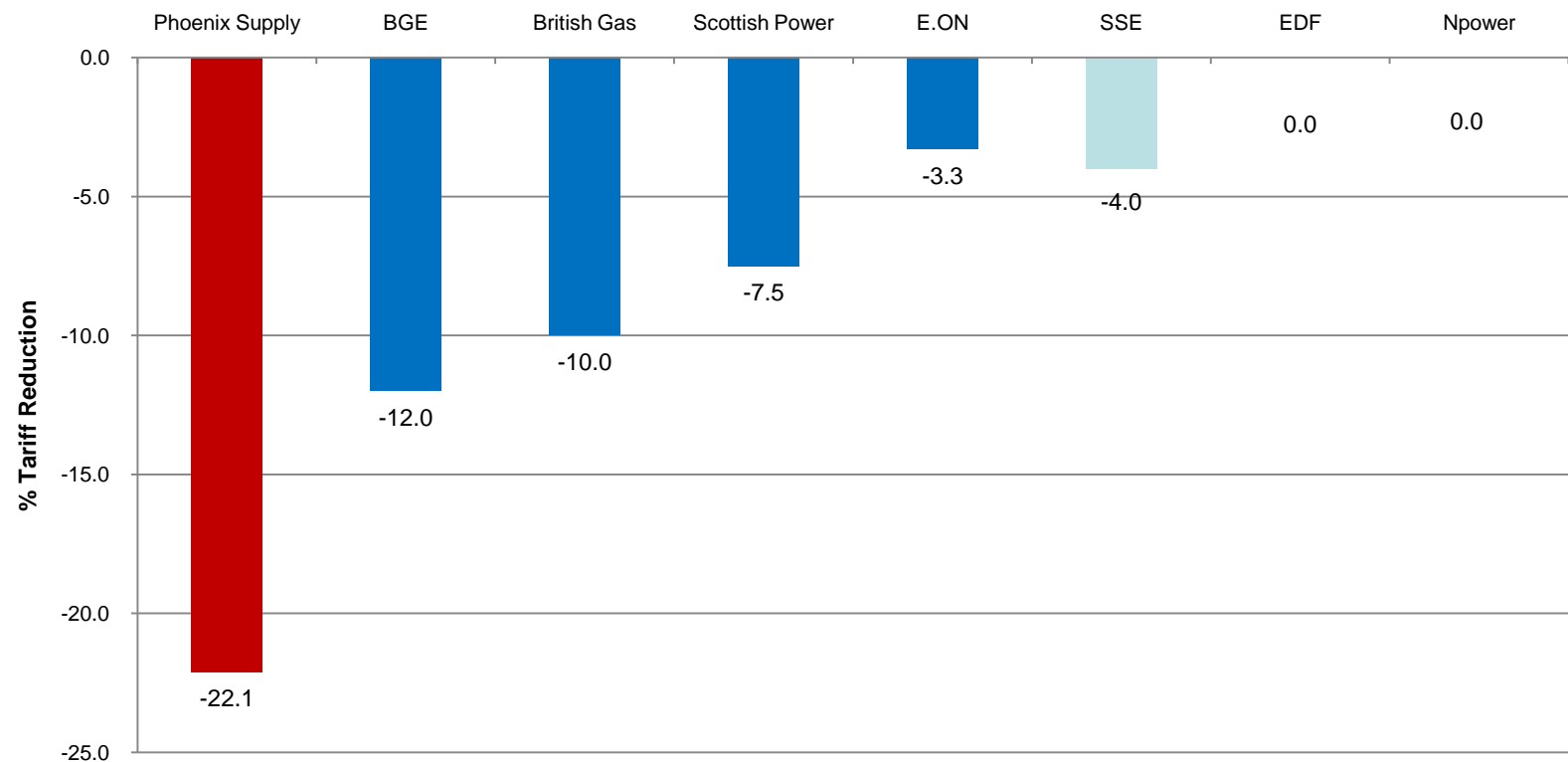
# Background

- PSL has a licence to supply all customers in the Greater Belfast area.
- The licence (2.4.1) allows the Utility Regulator to set a maximum average price under certain circumstances
- We have determined that a maximum price is appropriate for domestic and small industrial and commercial customers in Greater Belfast. They amount to about 115,000 customers and PSL supply almost 100% of these.

# PSL retail tariffs 2006-09

Effective from date	1 <sup>st</sup> October 2006	1 <sup>st</sup> April 2007	1 <sup>st</sup> May 2008	1 <sup>st</sup> October 2008	8 <sup>th</sup> January 2009
Approved Tariff (per therm)	£1.18	£1.00	£1.28	£1.53	£1.19
% Change		-14.60%	28.00%	19.20%	-22.10%

# 2009 Price Reductions





# PSL Price Control

- We issued our determination on the PSL Price control in March 2009 after consultation.
- This set out the supply costs for PSL for 2009-11 and also determined the principles for tariff review and cost pass throughs.
- The determination is available on our website.

# 2009 Tariff Review

- Tariff year runs for 12 months from April-March.
- We brought forward last review from April 2009 to January 2009 so that customers could benefit from low prices in winter.
- Therefore next review formally due April 2010 but the price control determination allows for mid year reviews if gas prices fluctuate.

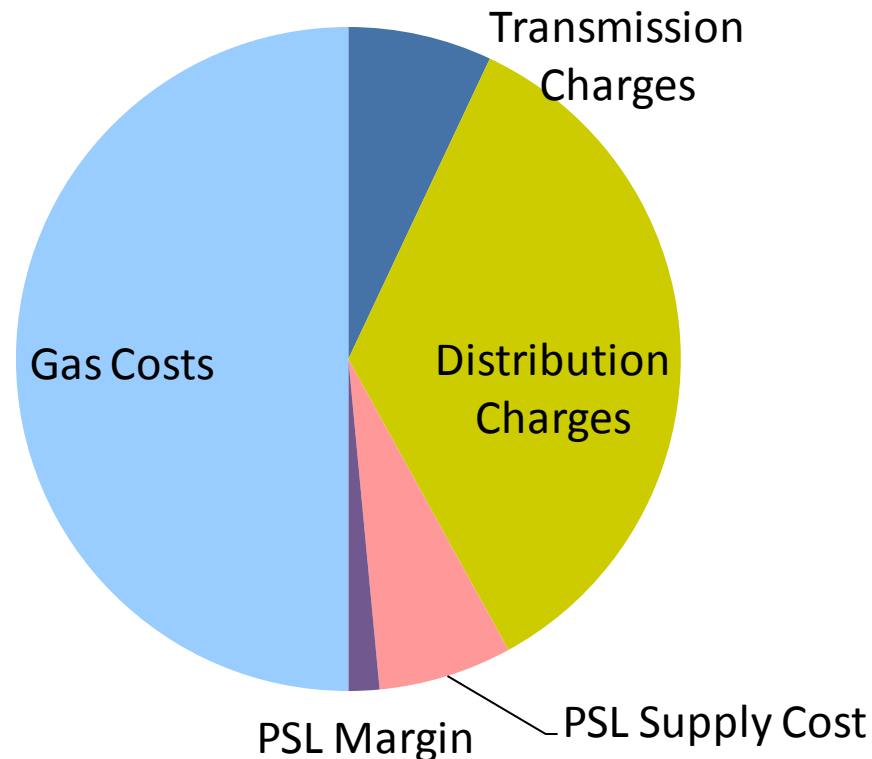
# 2009 Tariff Review

- Given the fluctuation in gas prices since January there will be a mid year review and PSL have provided the required information.
- They are required to seek the formal approval for a new maximum price from the Utility Regulator and are obliged to consult with the Consumer Council.
- This process is ongoing.




# Gas Retail Tariff Structure

Retail Tariff	=	Transmission Charges	+	Distribution Charges	+	PSL Supply Costs	+	PSL Margin	+	Gas Costs	+	Correction Factor
<p><b>What Customers Pay</b> [%s are Illustrative]</p>		<p>Charges for taking gas in large transmission pipes from Scotland to NI. These costs are scrutinised and approved by Utility Regulator</p>		<p>Charges for using smaller pipeline network in Greater Belfast area. These costs are scrutinised and approved by Utility Regulator</p>		<p>Costs of PSL itself. These costs are scrutinised and approved by Utility Regulator</p>		<p>Allowed margin above costs for PSL. This is determined by Utility Regulator as part of price control. Includes working capital costs.</p>		<p>This is the cost of the actual gas bought in GB. This is a pass through cost and is reviewed at every tariff review by Utility Regulator. <b>This is most volatile component.</b></p>		<p>As gas costs are fixed in advance, actual costs differ from forecast and the difference is included in the tariff. This can be positive or negative.</p>
100%		7%		35%		6.5%		1.5%		50%		

# Gas Retail Tariff Structure



# Regulatory Involvement & Transparency

- **Transmission**  – tariffs approved by regulator and published every July.
- **Distribution**  – tariffs approved by regulator and published every September. Tariff based on regulatory determination for PNG Distribution Price Control 2007-11 published February 2008
- **Supply**  – margins and costs approved and published by regulator. PSL determination 2009-11 published March 2009

# Gas Costs

- In calculating the cost of gas we will review the forecast volumes for each month in the relevant period and multiply by the cost of gas in that month as set by the forward gas curve.
- The forward gas curve is based on the GB market (called NBP) which is traded and published everyday – just like oil market.
- We also factor in any pre-bought gas to produce the tariff
- We use the forward curve in September to finalise the tariff. This explains why the tariff is not currently fixed and the final tariff announcement is dependent on what happens in the market over coming weeks.

# Calculation of Gas Cost

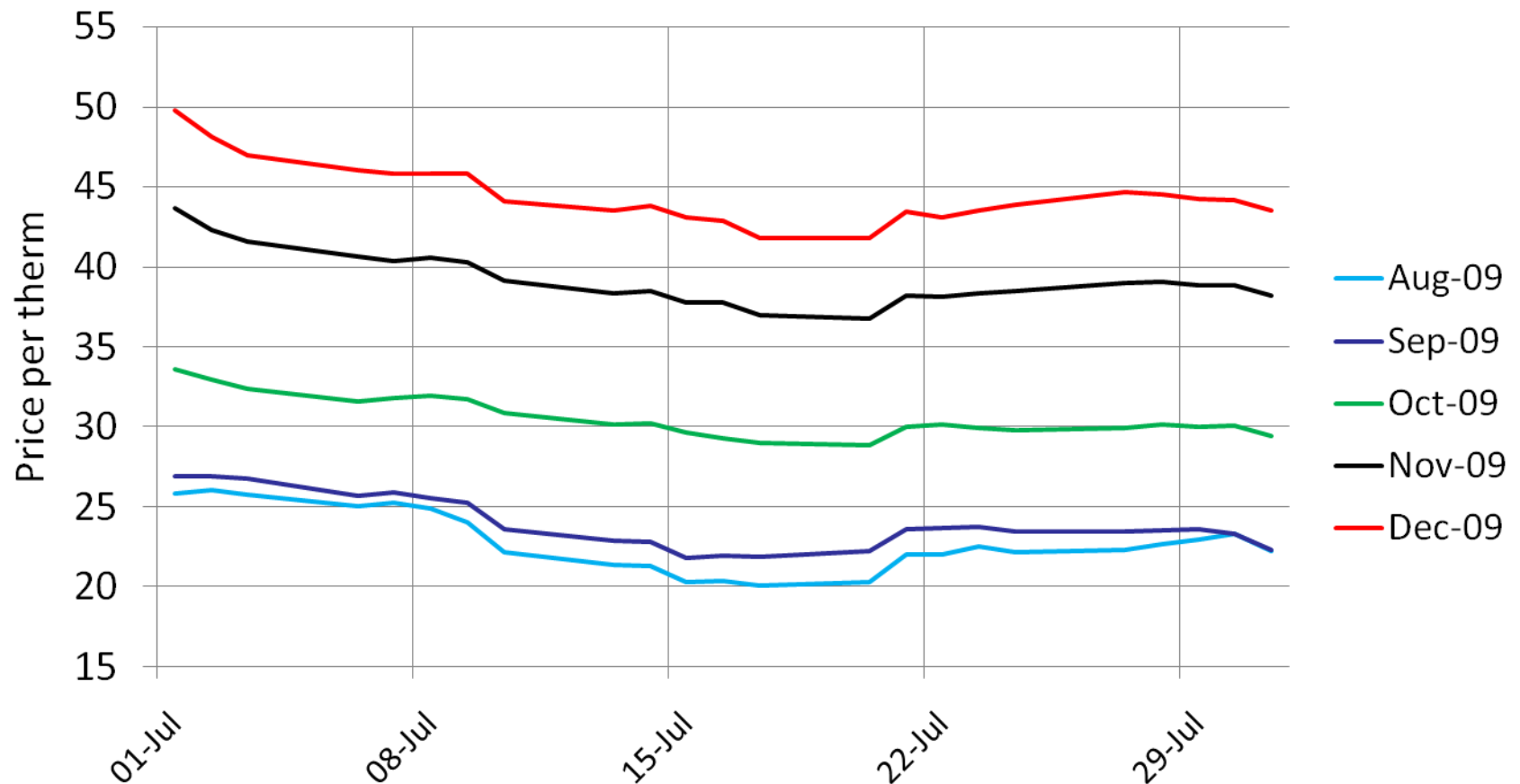
## Illustrative Figures

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Volumes	910	850	800	520	450	250	200	200	300	500	800	920	6700
Unit Price	90	85	85	54	50	50	50	50	55	65	85	90	75
£ Cost	819	722	680	281	225	125	100	100	165	325	680	828	5050

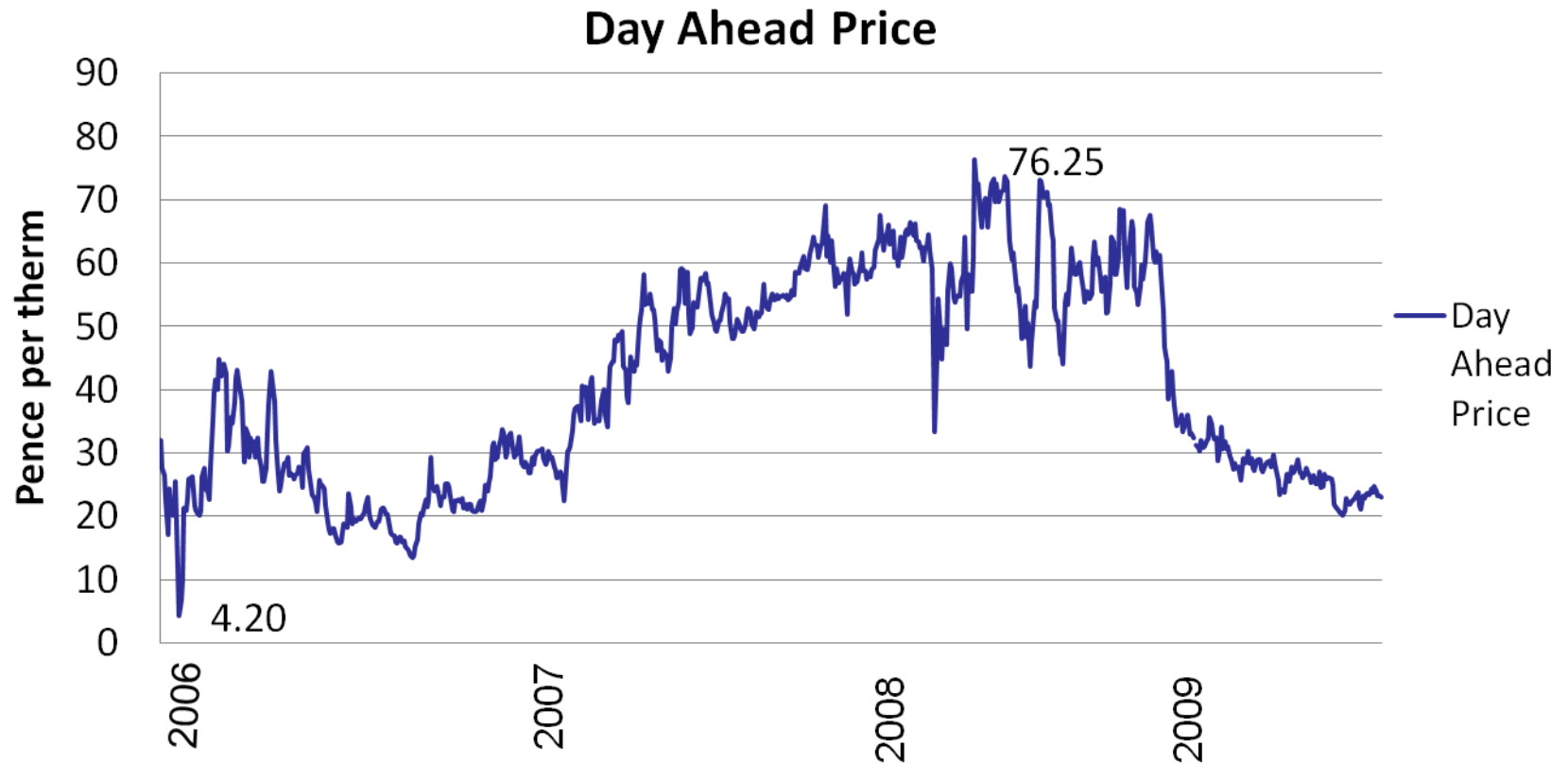
- Volumes are estimated based on historic experience.
- The forward gas curve is used to forecast gas prices.
- Each month then produces a cost amount.
- The total cost amount is divided by the total estimated volumes to produce a unit price (in red) which is used in the tariff formulation.



# Aug-Dec 09 Forward Curves – July

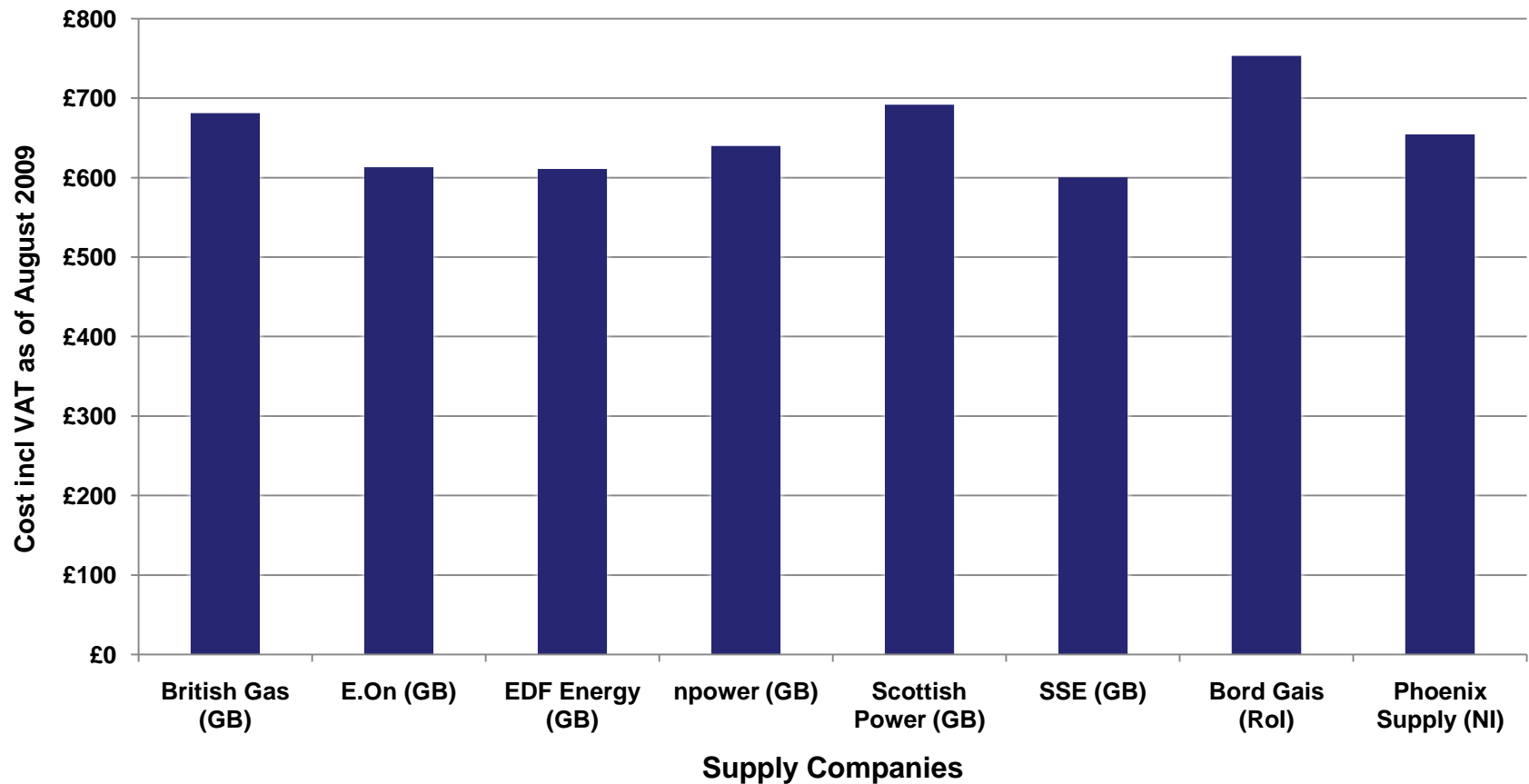


# Gas Price Trends



# Comparison with GB/RoI

## Standard Tariff Comparison for 15,000 kWh Usage



# Policy Decisions

- Given that most of the decisions on the tariff have already been made it is quite a mechanical process without many policy decisions.
- We have decided that the tariff review should run until March 2011 rather than March 2010. This will allow some smoothing of the tariff and provide customers with some price stability.
- Neither PSL nor the customer will be any worse off as the costs are pass through. However should the actual gas prices differ from forecast there will still be the potential for interim reviews in the next 18 months.

# Timetable

- PSL have submitted their tariff model for review and the Utility Regulator have approved methodology
- w/c 31<sup>st</sup> August– Final Forward Gas Price will be added to model
- w/c 7<sup>th</sup> Sept- Final Tariffs published

Thank you

# Energy Tariffs Briefing

## Tariff Review Process

### Electricity

### October 2009

Kevin Shiels  
Acting Director of Retail Unit  
Utility Regulator

# Aim of Presentation

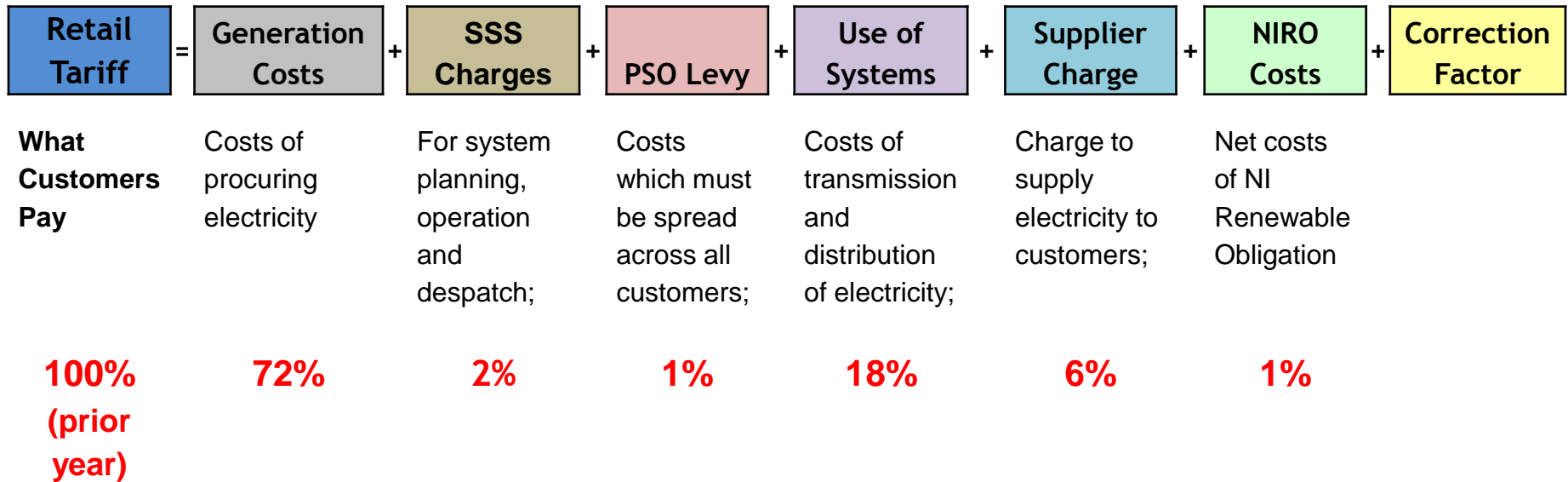
- This presentation will explain the process by which the maximum price for NIEES tariff customers is set.
- It will examine how the tariff is built up and the role of the regulator in reviewing it.



# Background

- NIEES have circa 790,000 customers (from households to large businesses).
- We regulate tariffs for those customer groups where competition is not evident.
- Licence allows NIEES to recover annual allowed efficient costs.

# Retail Tariff Structure



# Tariff Review Process

- Tariff year runs for 12 months from October – September.
- There was a mid year reduction in January 2009 of 10.8%.
- This delivered on our commitment to consumers: that should underlying costs come down, they will see the benefits in lower energy bills as soon as possible.

# Tariff Review Process

- Increased transparency from the prior year:
  - Tariff Timetable published 29 May (jointly with CER)
  - Three updates published throughout the process detailing:
    - Amounts hedged by NIEES and ESB
    - Progress on the timetable

# Decisions outstanding

- Decisions still to be made:
  - Capacity Pot (PSO, Retail tariffs)
    - Currently working on assumption – total amount outlined in consultation document
    - Due to be approved on 27<sup>th</sup> August
  - MO Charges (Generation costs and Retail tariffs)
    - Currently working on assumption – charges outlined in SEMO Price Control consultation
    - Due to be approved on 27<sup>th</sup> August

# Timetable

- w/c 17<sup>th</sup> August
  - Published the following inputs to the Retail Tariff model:
    - SSS
    - TUoS
    - DUoS
    - PSO (draft)

# Timetable

- w/c 24<sup>th</sup> August
  - NIEES Provisional Retail Tariff Submission
  - Stakeholder forum
- w/c 31<sup>st</sup> August
  - Decisions
    - SEMO Price control/SEMO charges
    - Capacity Pot 2010
  - PSO Final Submission
  - NIEES Final Retail Tariff Submission

# Timetable

- w/c 7<sup>th</sup> September
  - NIEES Retail Tariffs verified
- w/c 14<sup>th</sup> September
  - NIEES Retail Tariff Announcement & Final Tariffs published



Thank you

# Energy Tariffs Briefing

## Electricity Retail Tariff Information

Stephen McCully  
Managing Director  
NIE Energy Supply

# Electricity Retail Tariff Review

## Stakeholder Briefing

Presentation by NIE Energy Supply

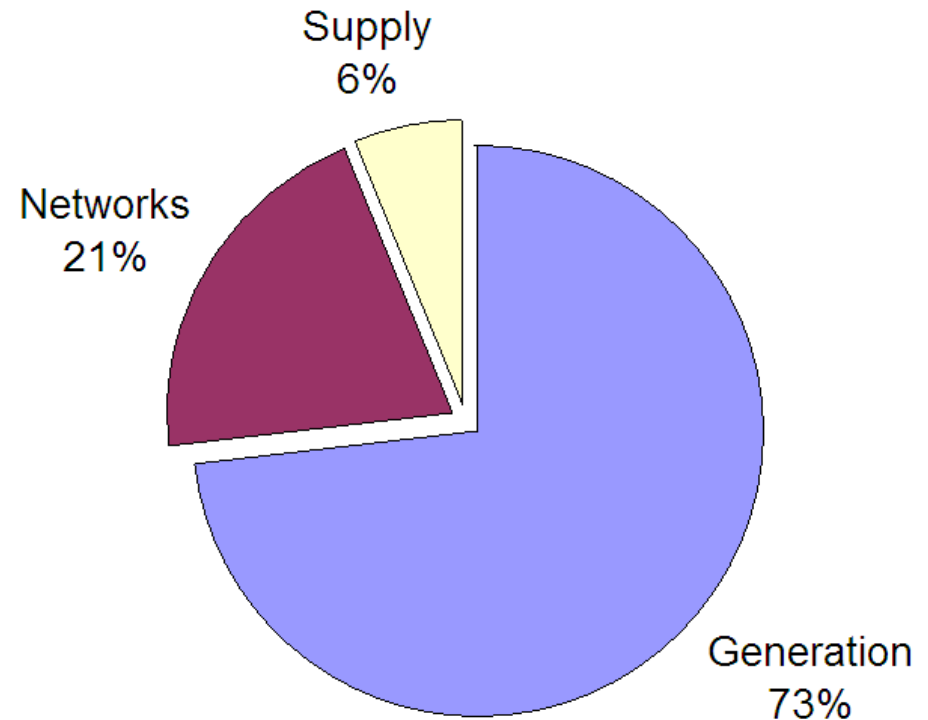
26 August 2009

# NIE Energy Supply - Overview

- Separate regulated business within NIE Energy Ltd
- Supplying c.790,000 customers
  - 745,000 Domestic
  - 45,000 SME
- Market share by sales - c.55%
- Price control extended to March 2010
  - Net margin 1.68%
- Scope of price control
  - Customers consuming <150 MWhs pa

# Tariff Components

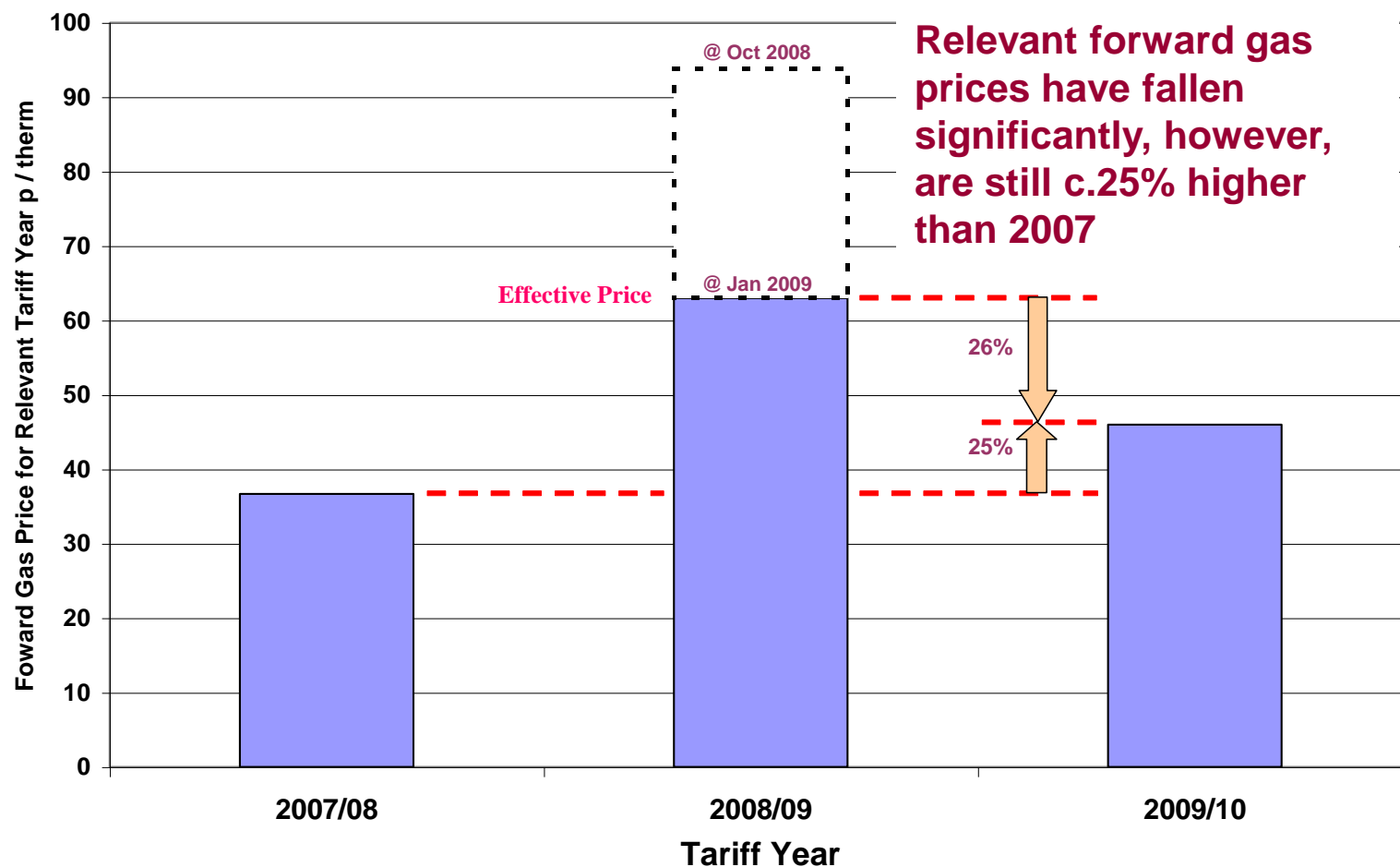
- Generation costs are a key driver of tariffs
- Generation costs largely determined by underlying gas prices



Breakdown of Oct 2008 Tariffs

# Underlying Gas Price Trends

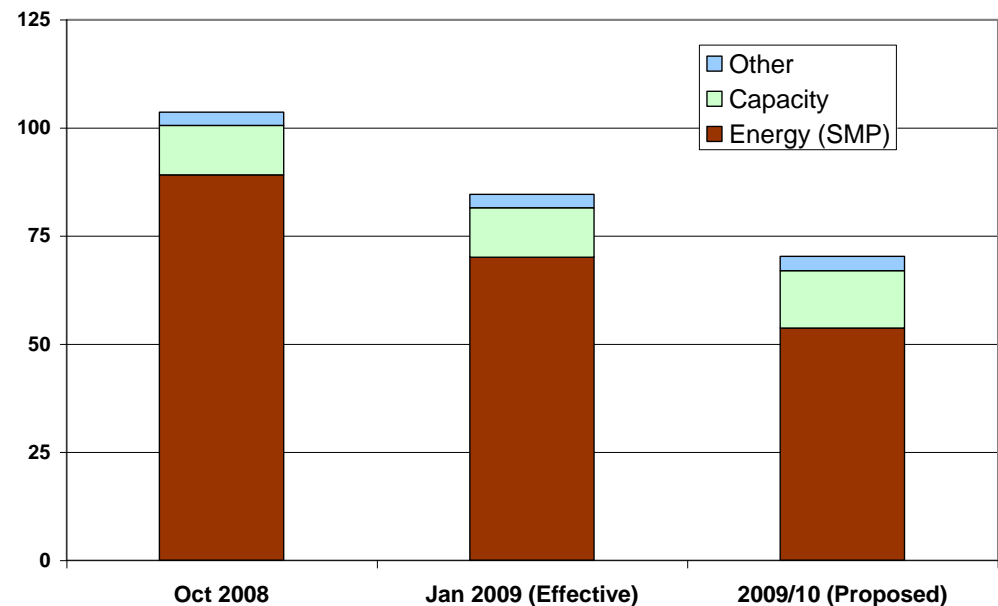
## Gas Price Trends – Underlying Gas Price p/therm



# Generation Cost Trends

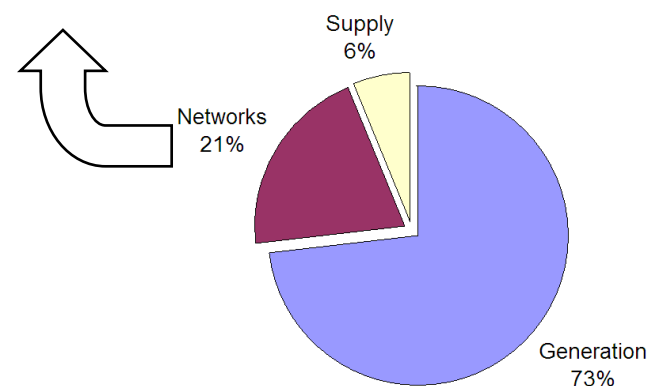
- Lower forward gas prices during summer 2009 provided NIEES with an opportunity to secure lower energy prices for 2009/10
- NIEES has hedged c.80% of its energy costs for 2009/10
- Capacity charges set to increase due primarily to: drop off in all island demand and weak Sterling

Generation Costs £ / MWh



# Networks Inputs

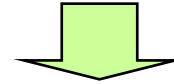
Tariff Components	% Change (vs Oct 2008)
TUoS	+ 7.5%
DUoS	+ 7.7%
SSS Levy	+ 23.5%
PSO Levy	+ 147%
Total	+ 18%





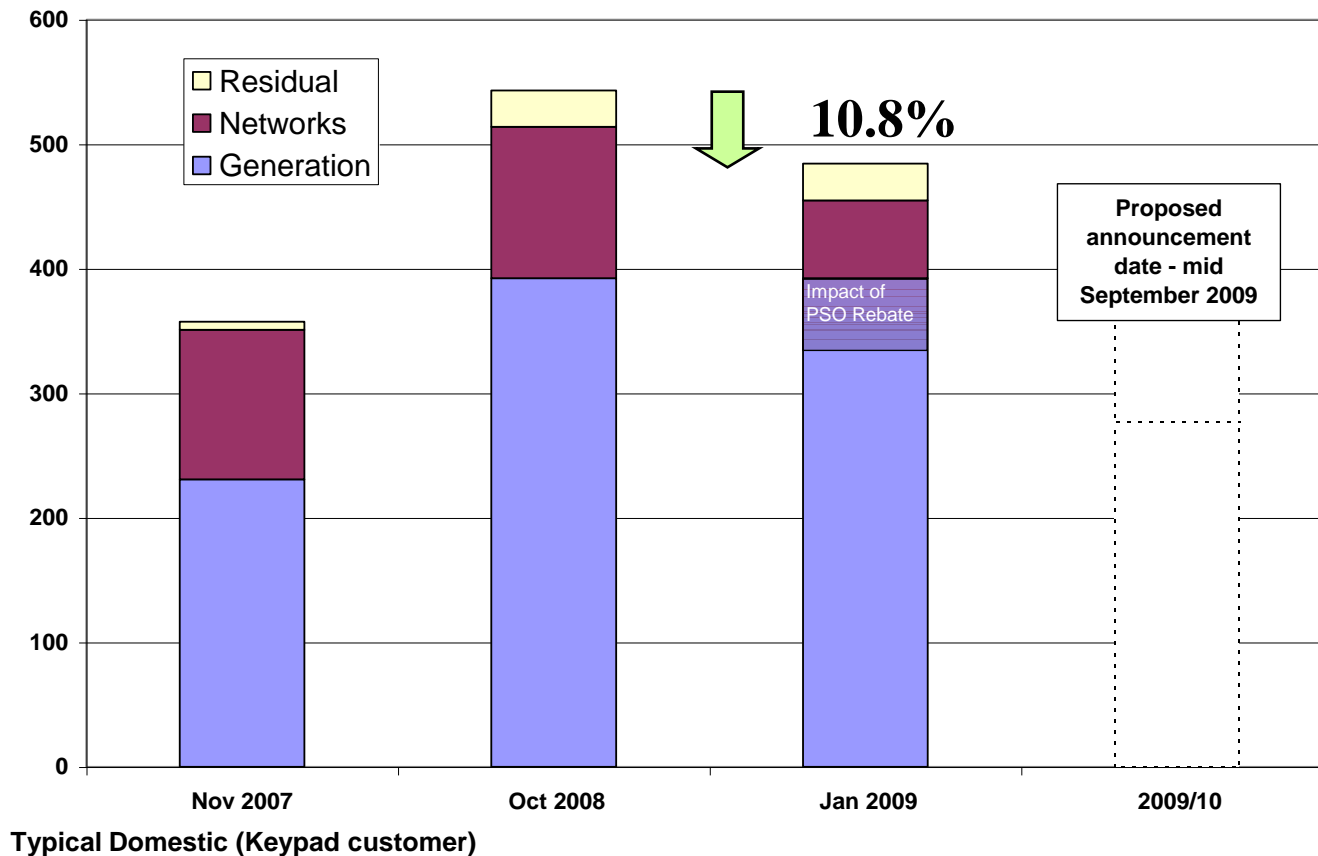
# Overall - Summary

- Generation costs
- Network costs
- Residual
- Forecast Overall



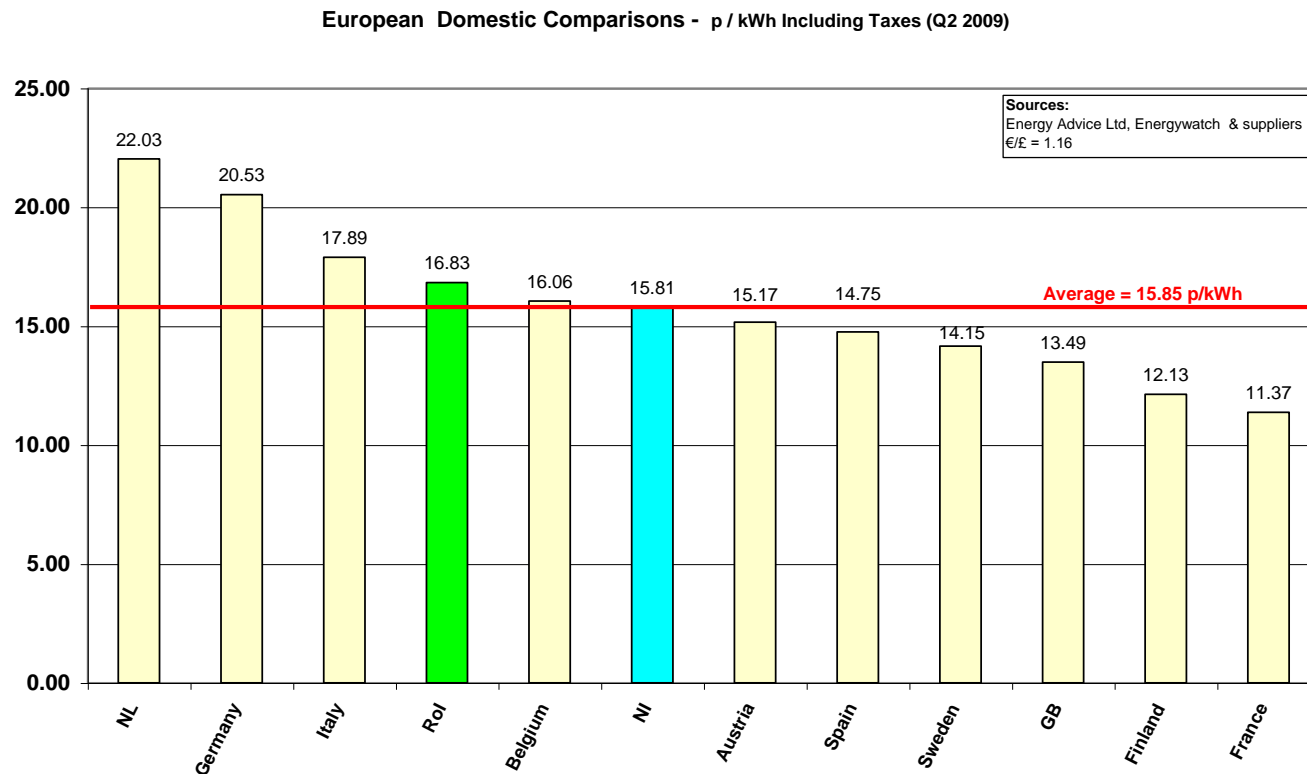
# Recent Tariff Changes

Average Annual Bill £



# Price Comparisons

- Current domestic prices in NI are slightly below the European average



# Support for customers over past year



- Support for energy saving measures:
  - Major focus on provision of support for vulnerable customers (fully funded grants for insulation and heating)
  - Hard to Treat homes pilot
  - Support also for SMEs and farms
- For Your Benefit: 7290 Benefit Entitlement Checks (from April 08)
  - 40% success rate identifying unclaimed benefit
  - Average of £32 per week
- ‘Pay as you go’ keypad customers receive discounted electricity
- Energy saving advice
- Support for minority and ethnic groups

# Thank you

# Questions & Answers

# Next Steps & Close

- Tariff Announcement:
  - Gas – w/c 7<sup>th</sup> Sept
  - Electricity – w/c 14<sup>th</sup> Sept
- Tariffs come into effect:
  - 1<sup>st</sup> October
- Slides will be available on website

Thank you