

Electricity Prices for Business Customers

6 November 2009

Introduction

Shane Lynch
Utility Regulator

www.niaur.gov.uk

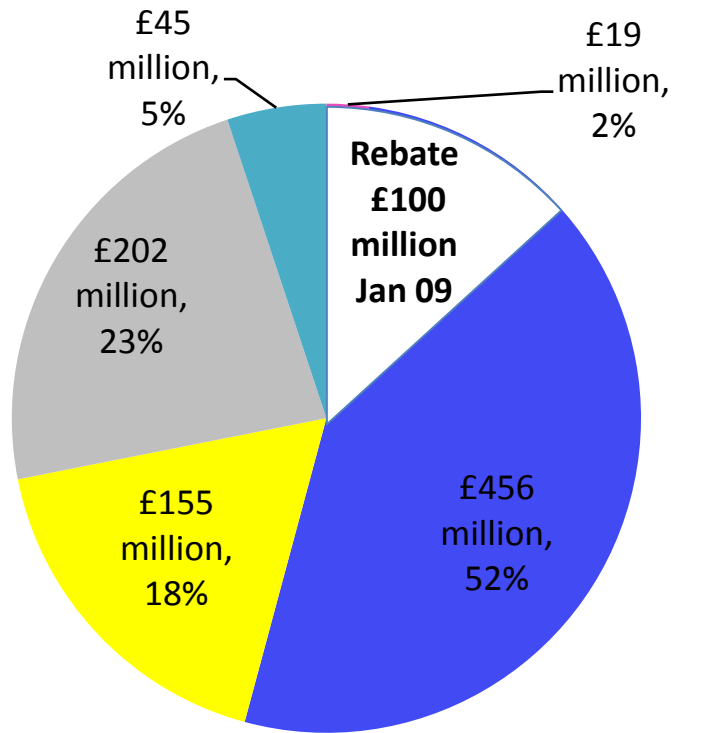
Communication Objectives

- Underlying Costs: Breakdown and Trend
 - Energy
 - Networks
 - PSO
- Network Cost Allocation
 - Policy
 - DUoS and TUoS Effects

Agenda

	Topic	Presented by	Timing
1.	Introduction & Background		
2.	Overall NI Cost Breakdown and Trend	Shane Lynch <i>Utility Regulator</i>	14.15 – 14.30
3.	PSO Cost Trend		
4.	Energy Costs		
5.	Network Costs	Roy Foreman <i>NIE Energy PPB</i>	14.30 – 14.45
	– DUoS Effects	Gerard Magee <i>NIE T&D</i>	14.50 – 15.00
	– TUoS Effects	Helen Magoriran <i>SONI</i>	15.00 – 15.10
6.	Summary	Shane Lynch <i>Utility Regulator</i>	15.10 – 15.20
7.	Q&A		15:20 – 16:00

Northern Ireland Total Underlying Cost of Electricity



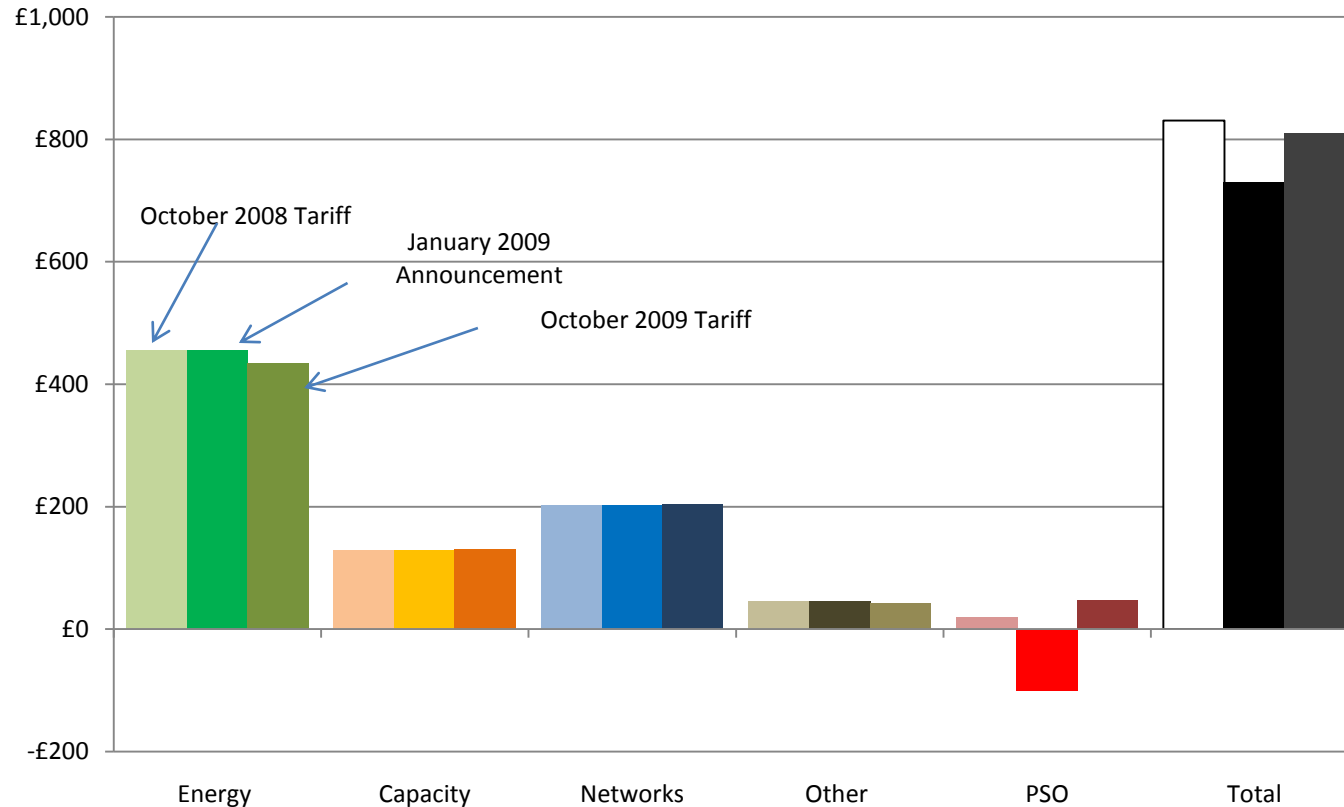
- Rebate was equivalent to £15/MWh (over 9 months)
- Average cost of capacity in NI was £15.4/MWh
- Average cost of energy was £44.7/MWh

■ PSO ■ Energy ■ Capacity
■ Networks ■ Other

2008/09

Total NI Electricity Cost

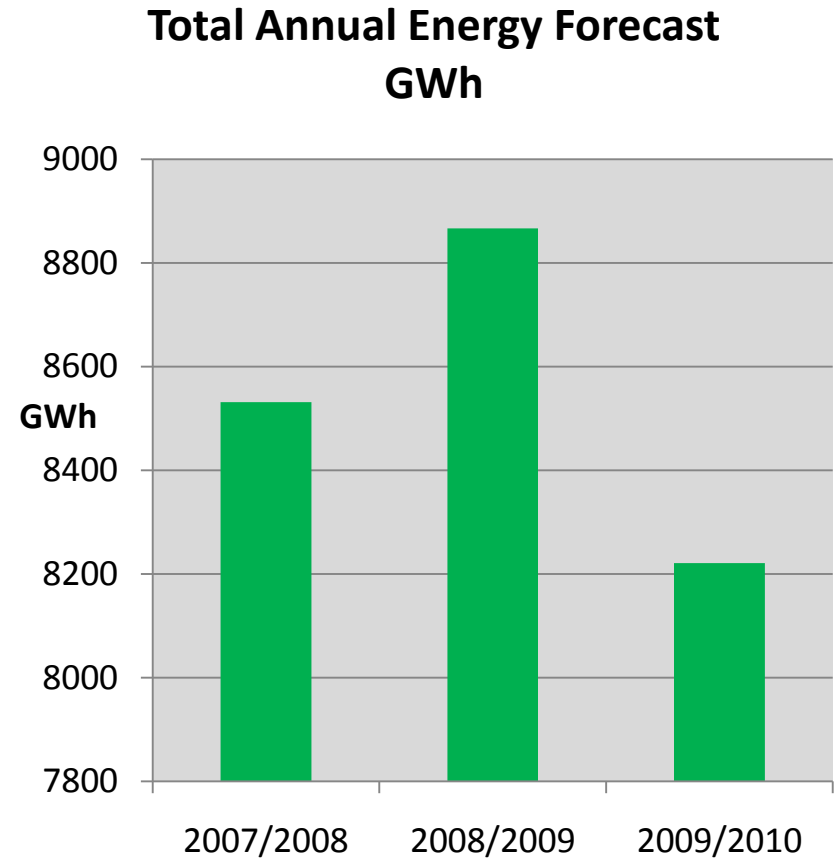
2008/09 to 2009/10



Note: 2008/09 energy figures are outturn values
 2009/10 energy values forecast from directed contract process

Demand Reduction

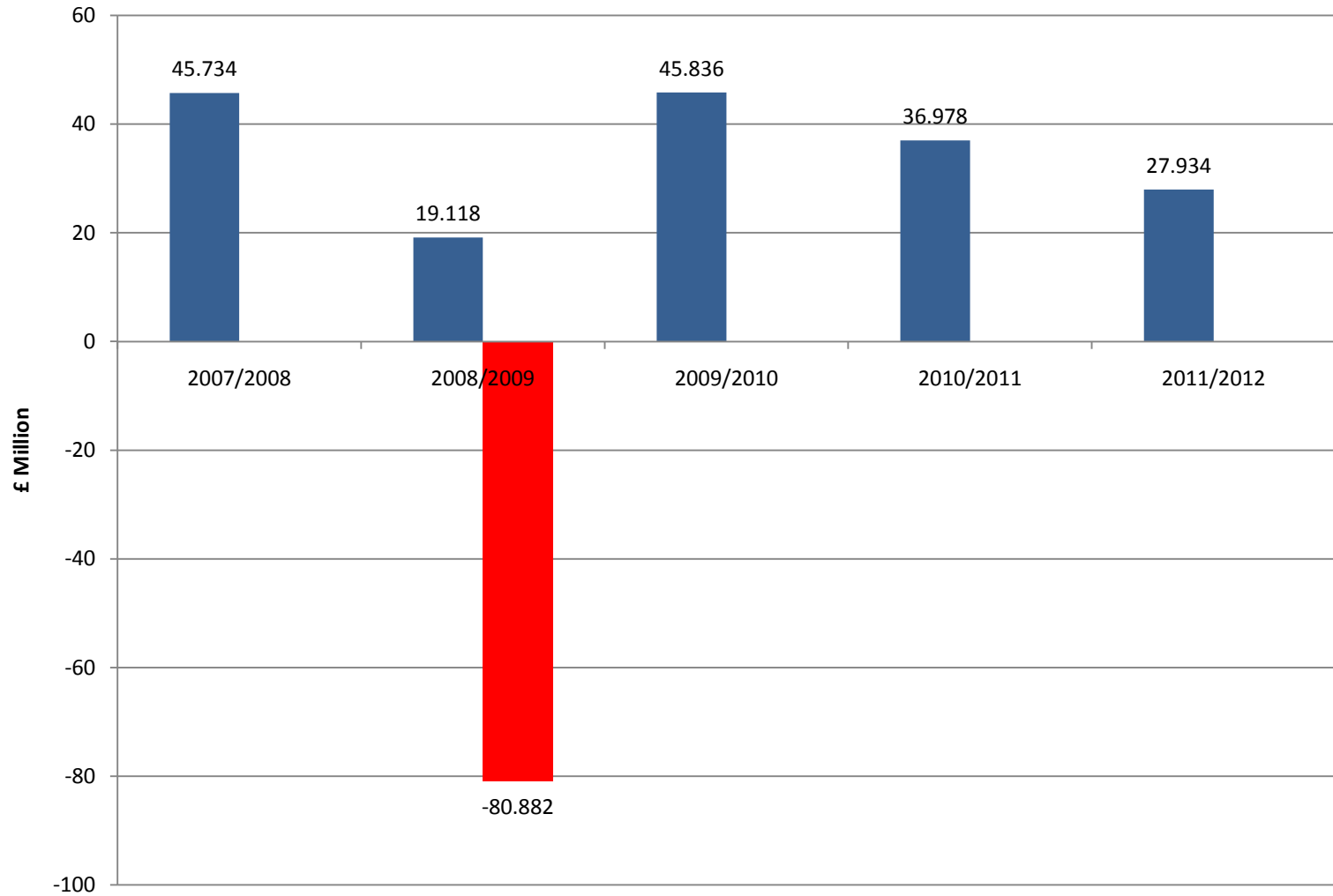
- Forecast demand for 2009/10 is 7% lower than the forecast for 2008/09
- $\text{Tariff} = \text{Cost} \div \text{Forecast Demand}$
- For fixed costs, a decrease in demand results in an increase in unit cost



Price Determinants for Business Consumers

- Underlying Electricity Costs and Allocation
- Hedging Strategy
- Load Profile
- Supplier Choice and Contract

PSO Cost/Benefit



PSO Charges

£m	2007/08 Forecast (12 months pro-rata)	2008/09 Forecast	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
NFFO/ROF		-3.943	0.432	0.432	0.432
Landbank		0.095	0.093	0.093	0.093
CBO Allocation		20.711	20.715	20.715	11.680
Kilroot FGD		22.760	23.960	0	0
Legacy Generation Costs/(Benefits)		(37.540)	(15.102)		
Market Costs		10.213	7.958	7.958	7.958
Energy Efficiency Levy		6.822	7.780	7.780	7.780
Total	45.734	19.118	45.836	36.978	27.934
PPB Rebate		(100)			
Adjusted Total		(80.882)			



Movements in Business Retail Tariffs

Wholesale Market Costs

Roy Foreman

6 November 2009



Outline

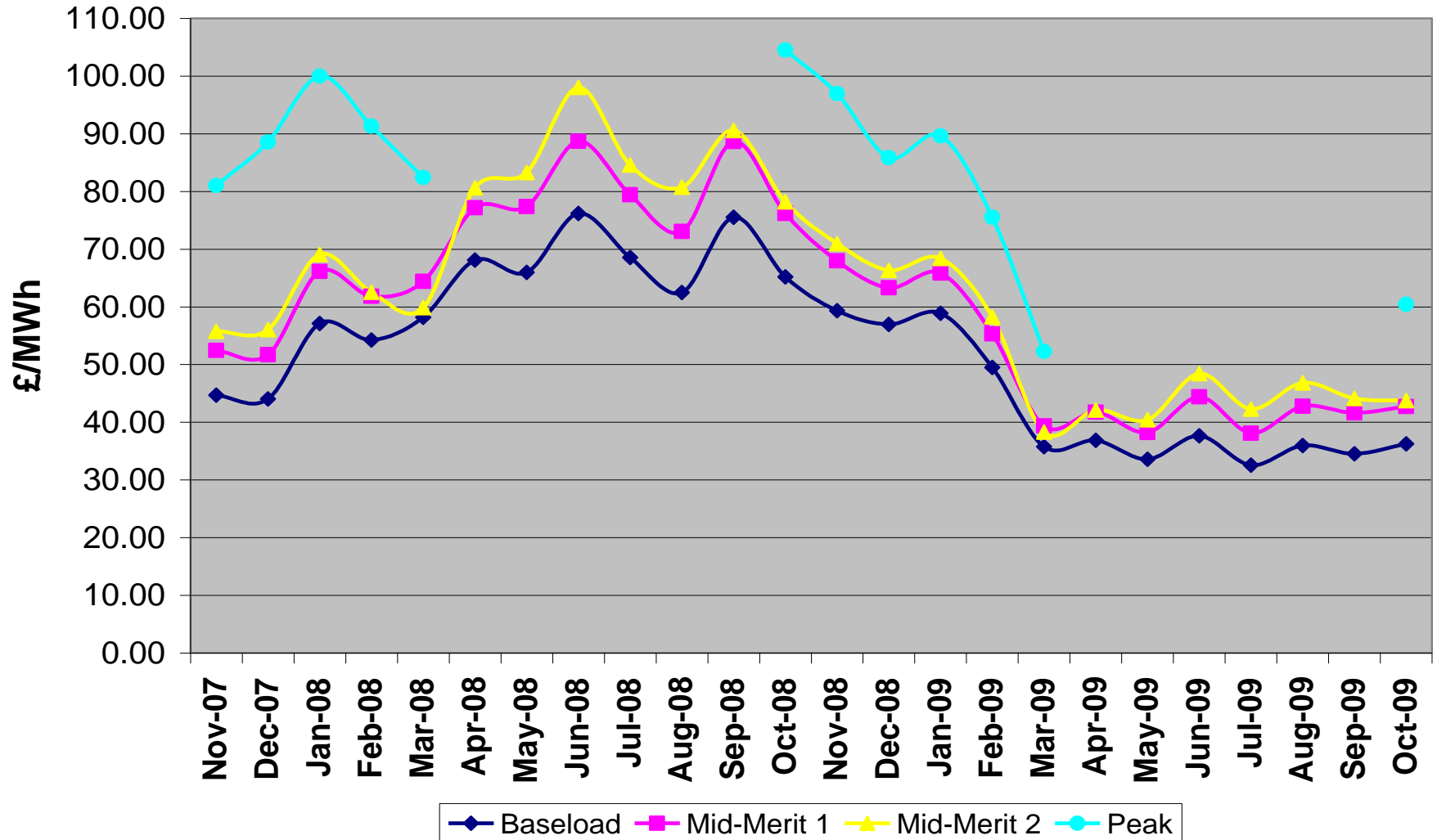
- Components of Wholesale Electricity Prices
- Review of System Marginal Prices (SMPs)
- Capacity Prices
- Hedging Contracts
- Energy Demand



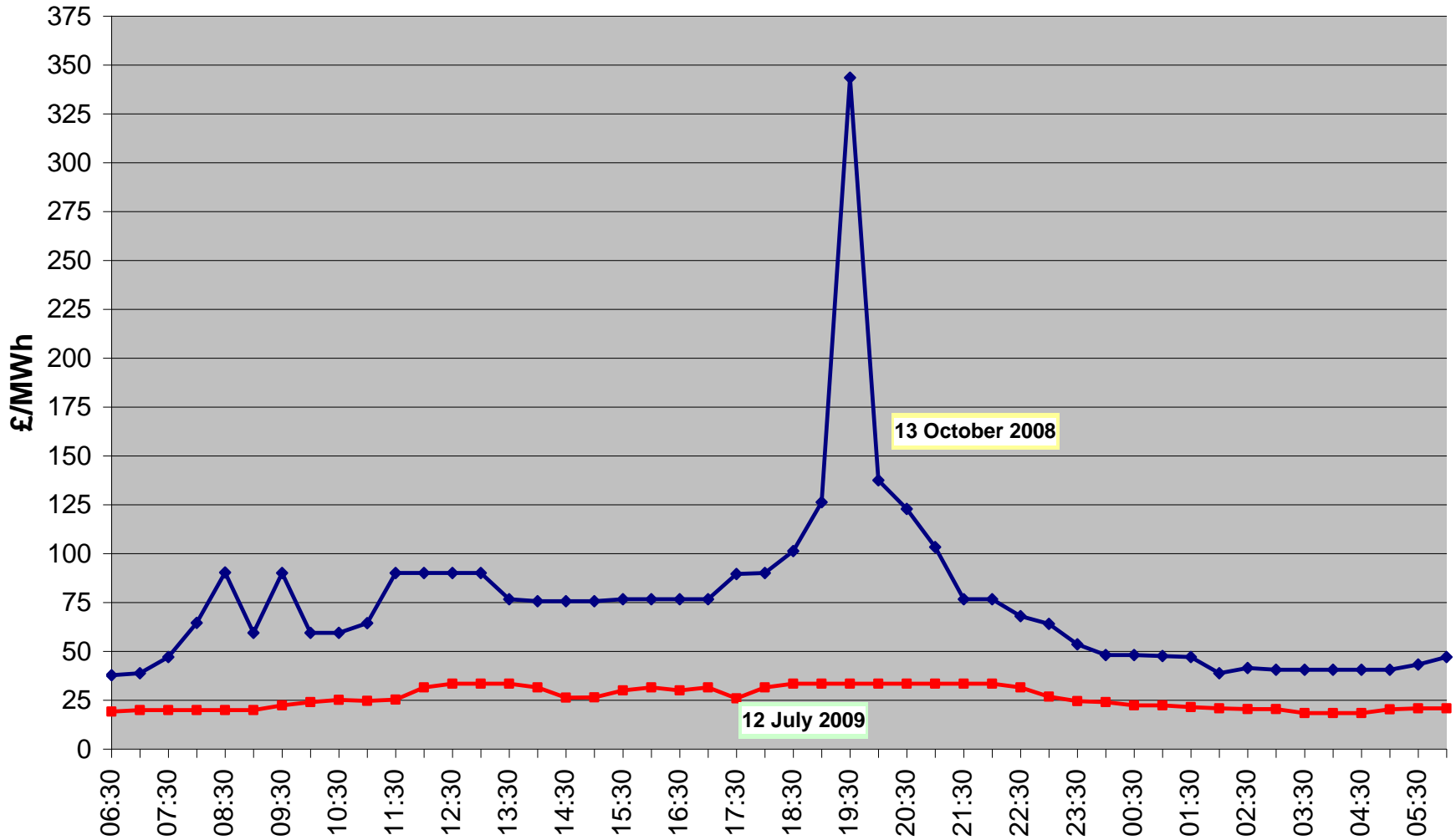
Components of Wholesale Electricity prices

- An Energy Price that reflects the marginal electricity production cost (SMP)
 - SMP varies each $\frac{1}{2}$ hour trading period
 - Bidding Code of Practice requires that generators' bids reflect their actual avoidable costs (monitored by the Market Monitoring Unit)
- A Capacity Price that reflect the marginal cost of peaking plant
 - The value of the capacity pot is determined annually by the Regulators based on
 - the latest estimate of the cost of a new peaking plant and
 - the amount of Capacity needed to meet demand to a reasonable security of supply standard
 - Capacity Charges are set to collect this revenue and generators earn a share of the pot

Monthly average SMPs in the SEM



Example daily SMP profiles



Capacity prices

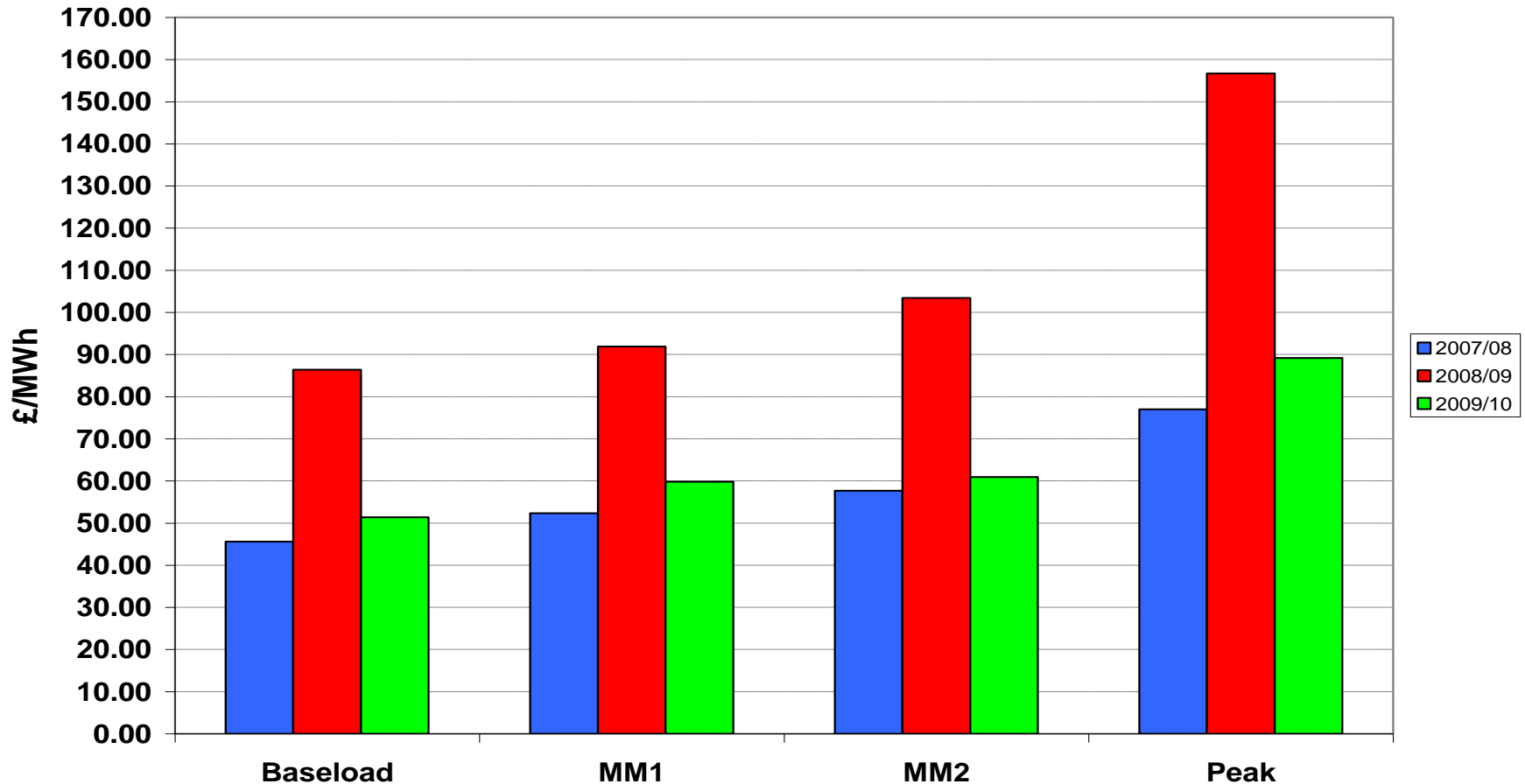
	2008	2009	2010
BNE Price (€/kW)	79.77	87.12	80.74
CPM Pot (€m)	575.2	640.9	555.1
CPM Pot (£m)	394.1	509.1	476.6

- Capacity pot is split into monthly sub-pots
- Those monthly pots are
 - recovered from all demand in that period and
 - paid out to the generators available in the period
- Exchange rate movements impact on prices paid by NI demand

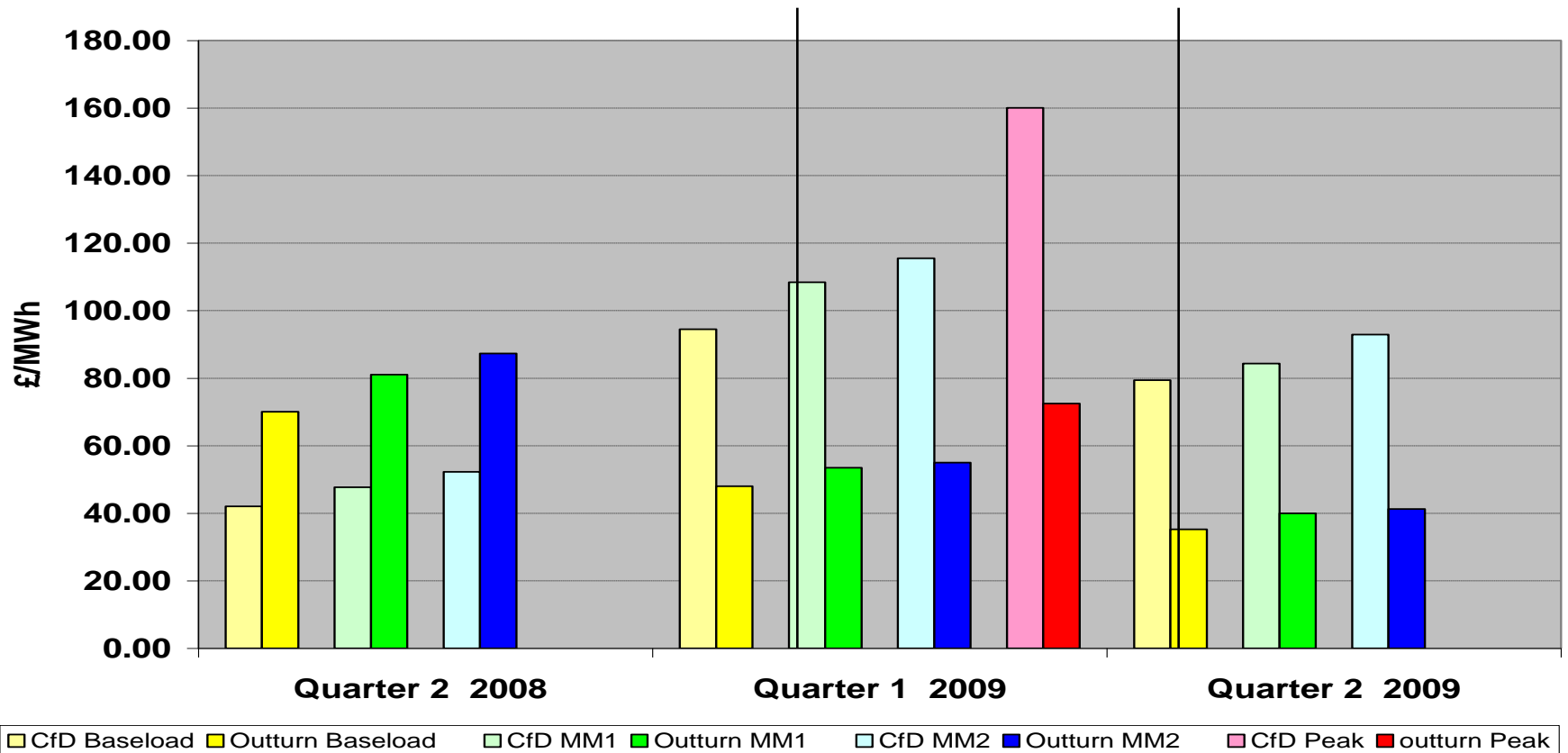
Hedging Contracts

- SMP is volatile
- Where customers want price surety, suppliers enter hedging Contracts for Differences (CfDs) to manage that price volatility
- These are financial arrangements that operate outside the SEM but allow for settlement of the differences between outturn SMP and the strike price
- Where a customer seeks a fixed wholesale price, the CfD prices are generally the basis of the energy price component of the bill

Comparison of Annual CfD Strike prices



CfDs Strike prices compared to outturn SMP



- Summer 2008 SMP prices much higher than CfD strike prices while the outturn SMPs in 2008/09 were much lower
- Summer 2009 SMPs are the lowest since the market started



Thank you

Roy Foreman
General Manager, PPB

6 November 2009

Structure of Distribution Network Charges (DUoS)

Gerard Magee
NIE T&D

Main Principles Determining Structure of DUoS Charges

- Cost Recovery
 - to reflect the costs of providing, operating and maintaining the distribution network consistent with NIE's T&D Price Control
- Postal DUoS Charges
 - to avoid undue discrimination between customers regardless of location
 - however, allow a locational element in charges for customers with demands >1MW
- Cost Reflective Pricing
 - to reflect customers' consumption patterns and network usage
 - our policy has been to apply cost reflective DUoS charges but quite high increases in overall electricity prices in recent years have limited its application until now
 - adjustment to Oct 09 charges is driven by policy to re-align with cost reflective principles
- Appropriate Pricing Signals
 - to optimise the use of the distribution network by encouraging customers to manage their consumption during peak hours

Components of DUoS Charges



Charges may include some or all of the following elements:

- Standing Charge (fixed charge)
 - to recover customer-specific costs (service connection, metering, billing etc)
- Availability Charge (per kVA of capacity)
 - to recover the cost of providing capacity on the local network
- Unit Charge (per kWh delivered)
 - to recover network costs not recovered under availability charges
 - peak unit charges mainly recover network reinforcement costs resulting from peak demand
 - other unit charges mainly recover operational costs incurred throughout the year

Average DUoS Charges by Customer Category

- Forecast for October 2009 to September 2010

Customer Categories	DUoS Charges	Oct '09 Average (p/kWh)	Oct '09 Average Increase
Domestic & Farms		2.8	7%
Small Commercial & Industrial MD < 70kVA		2.3	11%
Large Commercial & Industrial MD < 1MW	MV Connection	1.9	7%
Large Commercial & Industrial MD > 1MW	HV Connection	0.9	8%
Large Commercial & Industrial MD > 1MW	EHV Connection	0.2	-11%

Transmission Use of System Tariffs

1 October 2009 – 30 September 2010

Licence Obligations

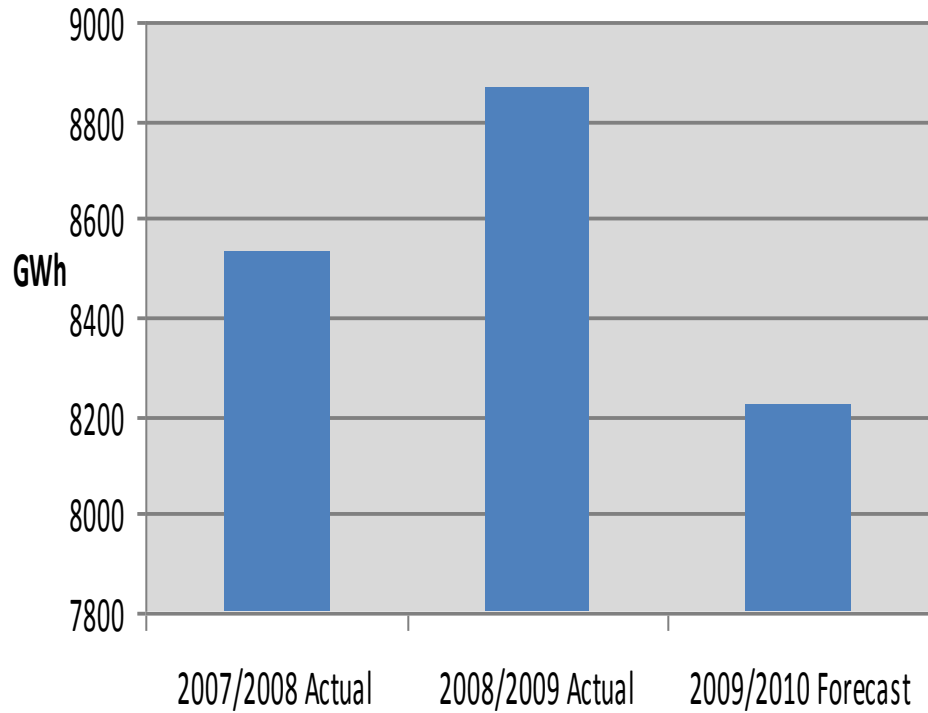
- SONI took responsibility for calculating TUoS under a new licence granted in 2007 to reflect the new obligations under the Single Electricity Market arrangements and have calculated TUoS charges for tariff years 2008/09 and 2009/10
- The current methodology used for calculating Supplier TUoS tariffs is approved by the Utility Regulator. It was inherited from NIE T&D and will continue to be used until SONI adopts a new methodology for calculating tariffs.

Transmission Use of System

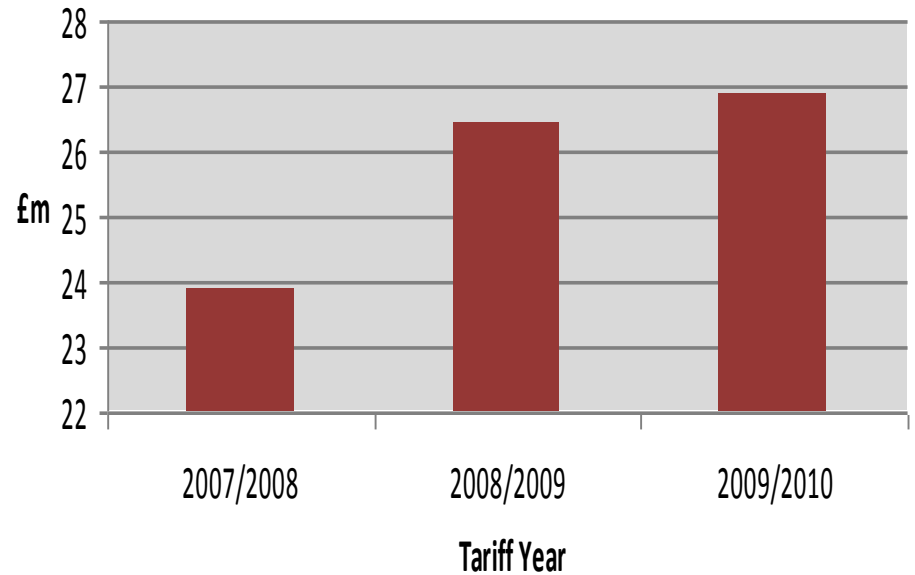
- Revenue collected is paid to NIE T&D for 'Transmission Services' and to Moyle under the Collection Agency Agreement.
- Payments to NIE T&D based on 18% of total NIE T&D regulatory approved income.
- 2009/10 Tariff year = **£34.87M** which split between

Supplier TUoS	75%	=	£26.15M
Generator TUoS	25%	=	£8.72M

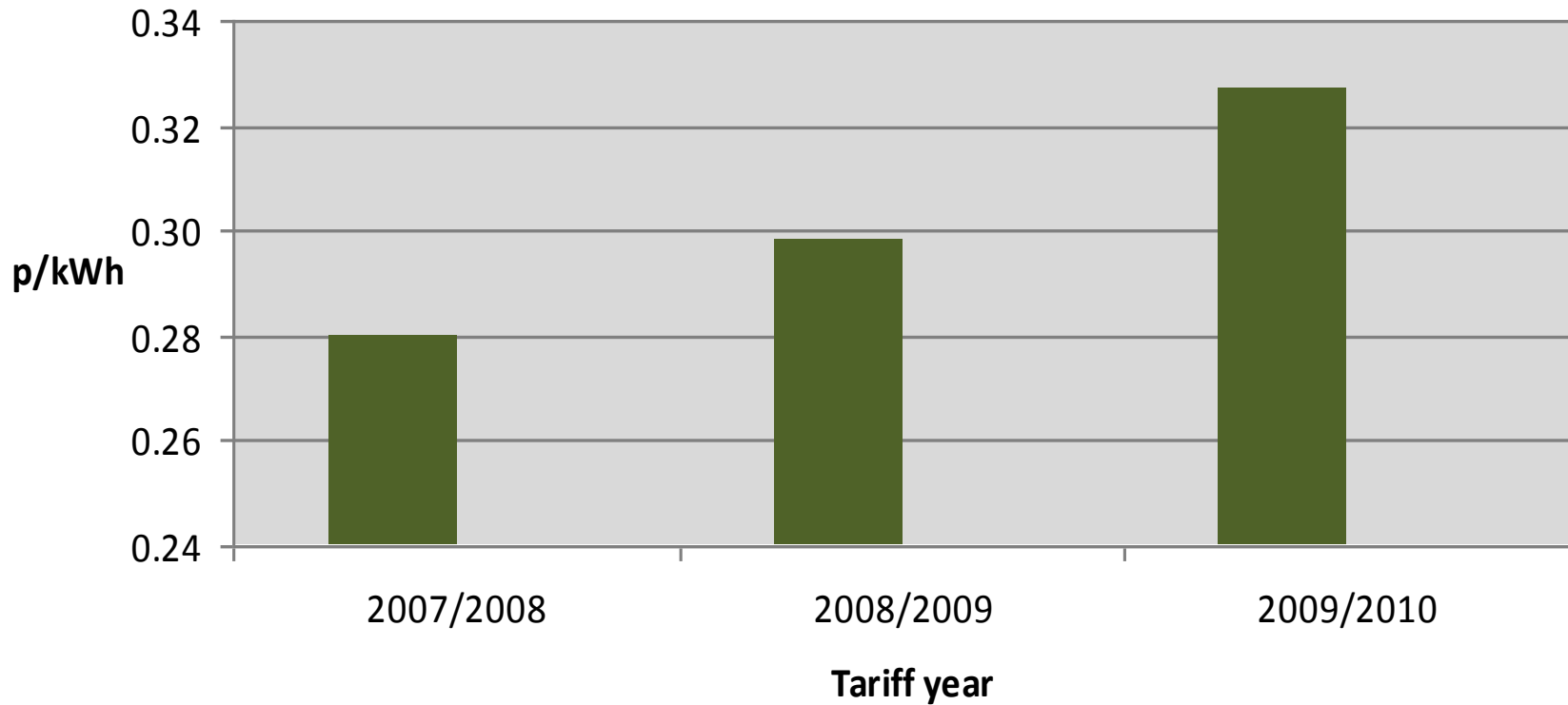
Total Annual Energy GWh



Supplier TUoS Revenue requirement (£m)

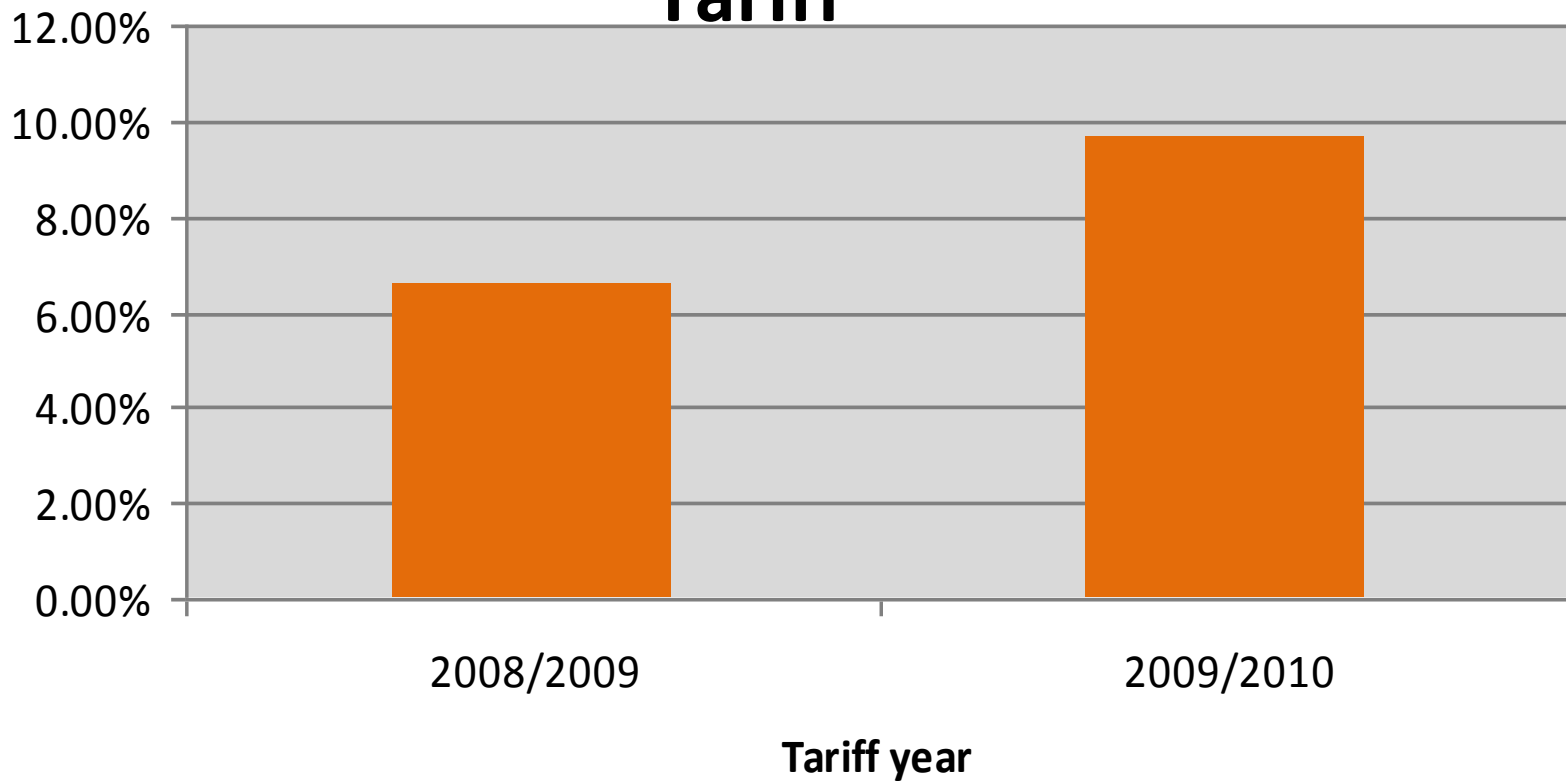


Average STUoS tariff pence/kWh



% Annual increase in average STUoS

Tariff



Impact on Suppliers

- SONI carried out impact analysis to determine how the changes in tariffs this year would impact on individual suppliers. This included creating dummy invoices based on winter months using new tariffs
- Typical increases were between 7.3% - 14.3% in a Supplier's TUoS invoice compared with 08/09 prices.

Tariff Review

- SONI have commenced a review of the Supplier Transmission Use of system charging methodology
- The review will be subject to consultation and we shall be engaging with stakeholders to determine their key concerns and then set agreed objectives for any new approach.
- Further details of the review can be found on the Utility Regulator's website

Summary

- Forecast total costs for 09/10 similar to actual costs for 08/09 (excluding PSO rebate)
- Spot prices remain volatile
- Average LU prices on 1 Nov '09 should be lower than those on 1 Nov '08
- Reduced demand means higher network prices per unit
- £100m “PSO Rebate” in 08/09 was a one-off
- PSO trend is downwards
- Move to cost reflective network charges
- Prices for Individual Companies will vary with:
 - Load Profile
 - Hedging Strategy
 - Supplier Choice and Contract Terms

Thank You

Questions?

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