

## **NIE Energy Electricity Price Rises Q and As**

### **Q.1 Why is NIE Energy announcing a rise in electricity prices now?**

**A. NIE Energy is making an announcement on electricity prices now as part of the normal annual review of tariffs that it undertakes in consultation with the Utility Regulator.**

**An earlier price rise announcement by NIE Energy on 28 May was the outcome of an in-year tariff review which was triggered whenever it became apparent that there would be a significant difference between the forecasts used to set tariffs and likely out-turn.**

### **Q.2 Why is the price so high and is the scale of the rise justified?**

**A. The main reason why the price rise is so high is exceptional increases in international fuel prices over the past year. Fuel prices are the single largest component of electricity prices. The impact in Northern Ireland is obvious: two-thirds of electricity in Northern Ireland is generated from gas, and wholesale winter gas prices have more than doubled compared to a year ago.**

**Various factors make up electricity bills. Network costs and monopoly supply costs are tightly regulated within Northern Ireland. However, the wholesale cost of power is chiefly driven by the cost of fuel, these costs are directly passed onto electricity customers.**

**NIE Energy buys power ahead, and locked into forward prices earlier in the summer. The Utility Regulator encourages energy suppliers to buy ahead so as to shield Northern Ireland consumers from excessive volatility. Short-term fluctuations in the oil or gas price will therefore not have a direct impact on NI domestic electricity prices.**

### **Q.3 Why doesn't Viridian, who own NIE Energy, just absorb some of the extra costs and increase prices to consumers by less?**

**A. We require energy companies to improve their efficiency year-on-year, and have been doing so for many years. Significant costs have been taken out of NIE**

Energy's operations over the years. While keeping costs down, this has also reduced the scope for the energy company to further reduce costs quickly.

NIE Energy and its regulated affiliates are prevented by regulation from generating excess profits. NIE Energy's allowed profit margin was set at only 1.8% of expected turnover, and the company's profits will not increase because of this increase in consumer charges. The network company is also permitted only the charges necessary so as to allow investment for the future, and to incentivise future efficiency gains, but without excessive profit.

**Q.4 Do we pay more for our electricity in Northern Ireland than other parts of the UK or the Republic of Ireland?**

A. As In Northern Ireland, fuel price pressures have led all the main suppliers in Great Britain to increase prices on two occasions this year. In the Republic of Ireland, ESB has had an in-year increase in August with a further tariff review planned for January.

In recent years NI domestic electricity prices have been at or below the GB average. However, following the October 2008 increase, it is estimated that domestic electricity prices in Northern Ireland will be some 24% above the Great Britain average and some 20% above the price in comparable regions.

ESB domestic electricity prices are currently in line with NIE Energy's tariffs for next year.

Following the ESB review in January, ESB prices may rise above those in Northern Ireland. Further increases in Great Britain this winter may also narrow the NI/ Great Britain differential.

**Q.5 What role does the Utility Regulator have in electricity price rises?**

A. The Utility Regulator acts on behalf of consumers, to ensure prices are as low as they can be, while still making necessary investment for the future. We have two main roles.

We scrutinise increases in NIE Energy's tariffs. In this case, we have carefully reviewed each of the cost elements within the tariff, and have satisfied ourselves that the increase is justified.

Our work also includes direct regulation of some of those elements, notably the costs of the electricity network – typically up to 40% of the energy bills paid by Northern Ireland customers.

**Q.6 How can consumers be sure that the Utility Regulator acted on their behalf to keep the electricity price rises as low as possible?**

**A.** We exist to protect the interests of customers, and have had these interests in the forefront of our minds in scrutinising NIE Energy's submission for a price increase. We have only approved this price increase because of the exceptional wholesale costs of electricity. On the network side, our work over last year resulted in new controls that will save Northern Ireland electricity and gas consumers £60 million.

We have also encouraged NIE Energy to be transparent and publish as much information as possible, and also to brief fully the Consumer Council.

**Q.7 What will the Utility Regulator do to make sure that consumers see reductions in their bills if the costs driving higher energy prices reduce?**

**A.** As with the situation in May 2008, a mechanism exists to convene an in-year review with NIE Energy - for example, if falling wholesale costs mean the company is likely to over-recover by at least 2.5% of turnover. In that scenario, the Utility Regulator would expect prices to be reduced mid-year. However, for this year NIE Energy have already contracted for the majority of its requirements over the coming year and so locked in its costs, and so an in-year review is less likely. In any event, we will ensure that next October's tariffs fully reflect any reductions in costs over the next year.

**Q.8 When are we going to get competition for NIE?**

**A.** A key part of our work is encouraging competition in the supply of energy. That is why we set up an all-island electricity market for generators that is much more open to competition at the wholesale level. As regards retail competition, we are considering how we can encourage new suppliers to offer choice for household energy consumers and have recently concluded a consultation on this issue. We expect to publish before year-end an action plan setting out our plans to promote choice for household consumers.

