

## Phoenix Supply Ltd Price Rise Q and As

### **Q.1 Why is Phoenix Supply announcing a rise in gas prices now?**

**A. In April 2008 Phoenix Supply Ltd (PSL) announced its tariff from 1 May 2008.. This tariff was based on a price control carried out by the Utility Regulator which determined the maximum average price that PSL could charge for its gas. The effect of the tariff was a 28% increase on the previous year's price effective from 1 May 2008.**

**Included within the price control was a mechanism that allowed a tariff review to take place if the wholesale cost of gas increased to such an extent that it would cause an increase in the tariff of 5%.**

**Since May 2008 wholesale gas prices have risen significantly with the price of gas for winter 2008/09 being 40% more expensive to buy in August 2008 than in May 2008. The increased wholesale cost of gas has led to the tariff review.**

### **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 wholesale gas prices over the past year. Wholesale gas prices are the single largest component of gas prices.**

**The Utility Regulator has reviewed the information provided by PSL and analysed wholesale gas costs. The Consumer Council and DETI have also been involved in the tariff review. The Utility Regulator is satisfied that the scale of the rise is justified.**

**Q.3 Why doesn't Phoenix Supply 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. The effect of the price control is to ensure that PSL can finance its activities but prevents the company from making excess profits. PSL's profit margin is currently 1.5%. While keeping costs down, this track record has also reduced the scope for the energy company to absorb costs or further reduce costs quickly.**

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

**A. Northern Ireland has no indigenous supply of natural gas and is totally reliant on imports from the UK mainland and further afield. Gas comes into Northern Ireland through the Scottish Northern Ireland Pipeline (SNIP). It is the extra costs associated with bringing gas through this pipeline which cause the differential in wholesale price between Northern Ireland and other parts of the UK. Consumer prices are also higher because NI's gas infrastructure is still not fully utilised. By way of illustration, a household using 15,000 therms per annum on a prepayment tariff in Northern Ireland would pay £849 to Phoenix Supply Ltd, the largest supplier in Great Britain for the equivalent tariff is British Gas, charging consumers £713.**

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

**A. The Utility Regulator acts on behalf of consumers, to ensure prices are as low as they can be, while still allowing necessary investment for the future.**

**We scrutinise increases in PSL's tariffs. In this case we reviewed the information provided to us by PSL and analysed the wholesale gas market to ensure that the costs reflect the market. Having reviewed the costs we are satisfied that the cost rise is justified.**

**Q.6 How can consumers be sure that the Utility Regulator acted on their behalf to keep the gas 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 PSL's submission for a price increase.**

**We have also encouraged PSL 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 part of the price control process prices will be reviewed again in March for the new tariff year beginning 1 April 2009. PSL have already purchased the majority of their gas for the winter period so it is unlikely that any change in the market would lead to a change in tariff price. However the in-year mechanism remains in place if there should be a dramatic change in the market.**

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

**A. Although there is competition in the sector for high gas users there is currently no competition in the domestic market. We have recently consulted on what the Utility Regulator could do to accelerate the development of retail competition. In the meantime the price control carried out by the Utility Regulator acts as a proxy for competition, serving to keep costs and margin at an efficient level.**