Regulated Tariff Values

Information Note

August 2010

1 – Introduction

Electricity suppliers in Northern Ireland pay a number of regulated charges which they in turn pass on to their customers. Regulated charges for the use of the electricity network in Northern Ireland and a levy known as the Public Service Obligation (PSO) are set by NIE and SONI (the system operator in Northern Ireland), and the maximum amount recoverable is approved by the Utility Regulator. Other regulated charges associated with the Single Electricity Market (SEM) are set by the Market Operator (SEMO) and the maximum amount recoverable is approved by the SEM Committee. The purpose of this note is to communicate the approved changes which will take effect from 1 October 2010, together with explanations for these changes.

NIE, SONI and SEMO set tariffs to reflect the total amount that can be recovered in the forthcoming tariff year and forecast demand. These tariffs vary between individual customers depending on load profile, maximum demand, connection voltage, etc. NIE's revised tariffs are now published on their website and are linked to the Utility Regulator website. SONI's revised tariffs for use of the transmission network are expected to be published shortly.

Electricity bills also include wholesale energy costs, the climate change levy (for businesses only), supplier charges and VAT. Energy costs will vary between suppliers and customers depending on the timing and extent of hedging contracts.

2 – Charges Regulated by the Utility Regulator

The Utility Regulator regulates network charges and the PSO. NIE are forecasting a total demand for 2010/11 of 8,444 GWhs compared to the forecast for 2009/10 of 8,348 GWhs. This represents an increase of 1.15% and has the effect of further reducing average unit costs.

2.1 Northern Ireland Network Charges

Details of the movements in the maximum amount recoverable from network charges are set out in table 1.

Distribution Use of System (DUoS) Charges:

The maximum amount recoverable has reduced by almost 10%. This is due to an over-recovery in the current year and a reduction in NIE's 'regulated entitlement' as set out in annex 2 of its licence.

Transmission Use of System (TUoS) Charges:

The maximum amount recoverable has reduced by just over 16%. This is due to an over-recovery in the current year and a reduction in NIE's regulated entitlement as set out in annex 2 of its licence. Supplier TUoS charges will all be reduced by 18% and generator TUoS by 13.7%. The difference is due to the over-recovery being applied to supplier tariffs only, as this was the source of the over-recovery. The cost-reflective sculpturing of transmission tariffs is currently

under review and a consultation on the subject is currently available on the SONI website[1]. It is intended to apply any changes for the tariff year 2011/12.

System Support Services (SSS) Charges:
These charges cover the cost of SONI and ancillary services required to operate the transmission system safely and reliably. The maximum amount recoverable for 2010/11 has increased by 2%. A new price control will be applied to SONI during 2010/11 and at this stage it is difficult to predict what the exact impact of this will be on SONI's charges.

Table 1: Northern Ireland Network Charges

	2009/10	2010/11		
	£m	**£m**	**% Change (nominal)**	**% Change (real)[2]**
Distribution Charges (DUoS)	164.7	148.6	-9.8%	-14.1%
Transmission Charges (TUoS)	35.8	30.0	-16.2%	-20.2%
Support Charges (SSS)	24.2	24.7	2%	-2.9%
Total Network Charges	**224.7**	**203.3**	**-9.5%**	**-13.8%**

Table 1 shows that the maximum amount recoverable for network charges reduced by 9.5% (nominal). Based on NIE's forecast demand of 1.15%, average unit charges will decrease by around 10.6%.

2.2 Northern Ireland Public Service Obligation (PSO) Charge

The PSO is a levy which is charged at a flat rate on all units of electricity demand. The components of the levy are described below. The year-on-year movements and details of the year-on-year changes in the maximum amount recoverable are set out in table 2.

Non-Fossil Fuel Obligation (NFFO) / Renewable Obligation Factor (ROF) Charges:
The NFFO contracts and the associated ROFs are managed by NIE Energy Supply (NIEES). These are contracts put in place to encourage renewable generation prior to the ROCs (Renewable Obligation Certificates) scheme being introduced. Any costs and benefits associated with these processes are claimed through the PSO. The amount is expected to have

[1] The paper is available at www.soni.ltd.uk/newsstory.asp?news_id=89
[2] RPI has increased by 3.75% in the nine-month period between October 2009 and June 2010. Assuming a similar increase between June and October 2010 would result on year-on-year inflation of 5%.

an over-recovery at the end of the current tariff year due to proceeds from the sale of ROCs being passed back to customers. This over-recovery results in a rebate for the 2010/11 tariff year and this income is expected to continue for the next tariff year.

Table 2: Northern Ireland Public Service Obligation (PSO) Charges

	2009/10	**2010/11**		
	£m	£m	% Change (nominal)	% Change (real)
NFFO/ROF	0.4	(1.5)		
Landbank	0.1	0.1		
Ballylumford CBO	20.7	20.7		
Kilroot FGD	24.0	1.4		
Legacy Generation Costs	(15.1)	5.6		
Market Opening Costs	8.0	7.0		
NISEP	7.8	7.9		
Total PSO Charges	**45.9**	**41.3**	**-10.0%**	**-14.3%**

Table 2 shows that the maximum amount recoverable under the PSO levy reduces by 10.0% (nominal). Given that demand is forecast to increase by 1.15%, average unit charges will decrease by around 10.6%. Therefore the PSO levy will reduce from 0.549 p/kwh to 0.491 p/kwh.

Customer Buy-out (CBO) and Kilroot Flue Gas Desulphurisation (FGD) Costs:

The Ballylumford CBO costs arose from a buy-out of power purchase agreements back in 2003. These costs are due to end in March 2012. The Kilroot Flue Gas Desulphurisation costs are due to a clause in the power purchase agreement which allowed recovery of these cost since 2007. These costs are due to end on 1 November 2010.

Legacy Generation Costs:

The NIE Power Procurement Business (PPB) has power purchase agreements with the power stations owners in Northern Ireland. These contracts were put in place with privitisation of the industry back in 1992. PPB purchase power under the terms of these contracts and then sell this power in the SEM. Any profit or loss is levied on all customers in Northern Ireland via the PSO.

The PPB business and the associated generation contracts are forecast to cost customers £5.6m in the 2010/11 tariff year. This compares to a net income of £15.1m in the 2009/10 tariff year. The swing is explained by a number of factors, the most significant of these are listed below:

- PPB are expected to carry an under-recovery of £3m into the 2010/11 tariff year, as opposed to the over-recovery of £20m they had going into the 2009/10 tariff year.

- PPB is expected to make a loss from trading in the wholesale market in 2010/11, compared to a significant profit in 2009/10.
- As part of PPB's risk management strategy they enter into hedges for both the sale of electricity and the purchase of gas. PPB is expected to earn less profit from these hedges during 2010/11 than in 2009/10.
- In 2010/11 PPB is expected to make a profit from the sale of excess carbon credits, whereas going into the 2009/10 tariff year they expected to have to purchase credits.

It should also be noted that the Utility Regulator has now issued a notification of our intention to cancel the contracts associated with the Kilroot generating units 1 and 2. The expected cost to customers in 2010/11 would be significantly higher if these contracts had not been cancelled.

Northern Ireland Sustainable Energy Programme (NISEP) Costs:
A levy is imposed on all demand to fund the NISEP. The objective of this programme is to promote energy efficiency with particular regard to vulnerable electricity consumers. The increase for 2010/11 is in line with RPI.

Market Opening Costs:
This charge is for the capital and operating costs for the new IT systems required to facilitate retail competition.

3 – Charges Regulated by the SEM Committee

The SEM Committee regulates certain charges in the all-island electricity market including charges for generation capacity, the operation of the market and market imperfections (or constraints). Details of the movements in the maximum amount recoverable for these charges on an all-island basis are set out in table 3.

All-island forecast demand for 2010/11 is 36,990 GWhs compared to the forecast last year for 2009/10 of 36,772 GWhs, representing an increase of 0.6%. This has the effect of reducing average unit costs.

Table 3: Charges Regulated by the SEM Committee

	2009/10 €m	**2010/11 €m**	% Change (nominal)	% Change (real)
Capacity Charge[3]	579.14	546.81	-5.6%	-10.1%
Imperfections Charge	93.73	107.32	14.5%	9.0%
Market Operator Charge	19.24	23.62	22.8%	16.9%
Total Charges	**692.11**	**677.75**	**-2.1%**	**-6.7%**

Capacity Charges:

In the SEM, generators receive a capacity payment as a contribution to fixed investment and operating costs. The total amount is revised annually to reflect the cost of new peaking capacity and the amount of capacity required to meet security standards. Suppliers in turn pay a capacity charge which is profiled monthly. These charges are calculated and published on a calendar year basis.

The total capacity charge for tariff year 2010/11 is down by 5.6%. On a unit basis the reduction will be greater due to increased forecast demand.

Imperfection Charges:

Actual dispatch on the all-island transmission network differs from the optimal dispatch derived for the market schedule. This is because constraints are introduced due to network bottlenecks (including the N-S interconnector) and due to the need for the system operators to maintain reserve for operational security.

The Imperfections charge mainly covers the cost of the variance between actual dispatch and the unconstrained economic dispatch reflected in the market schedule. Generators receive constraint payments to keep them financially neutral for the difference between the market schedule and the actual dispatch.

Year-on-year movement in this charge is 14.5%. This is mostly due to a reduction in the size of the k factor carried forward from previous years.

Market Operator Charge:

The Market Operator charges, defined within the SEMO price control, are currently out to consultation and will not be finalised until late September 2010. This has increased due to additional staff and a new proposed regulatory framework that will provide a lower long-term

[3] The capacity charge is calculated and published on a calendar year basis, these numbers have been adjusted to tariff year values for comparison with the other SEM charges.

revenue requirement. Tariffs set prior to this are likely to use the consultation value within the tariff structure.

4 – Other Costs

Energy

The largest component of electricity bills is the cost of purchasing energy from the wholesale electricity market (the SEM). In order for suppliers to offer fixed energy prices they must therefore enter into forward hedges. Prices will vary between suppliers and customers, depending on the extent, timing and duration of hedging contracts.

Whilst the SEM Committee does regulate bidding behavior in the spot market, the wholesale energy component of bills is not regulated for most customers. In Northern Ireland this component remains regulated for customers (mainly domestic) of the incumbent supplier, NIEES, who consume less than 150 MWh per year. Further information will be made available in September on NIEES's regulated tariff that will take effect from 1 October 2010.

Climate Change Levy (CCL)

The CCL was introduced on 1 April 2001. Only non-domestic electricity customers pay the levy, at a rate of 0.47p/kWh. Electricity from qualifying renewable sources is exempt from the levy. The Utility Regulator issues Levy Exemption Certificates (LECs) as evidence that electricity meets the definition of having been generated from a qualifying renewable source. LECs are issued by the Utility Regulator to generators and are traded with the electricity to suppliers.

Suppliers then use the LECs as evidence to HMCE of the amount of qualifying renewable electricity supplied to non-domestic customers. Businesses can also enter into a climate change agreement which reduces the amount they pay under this levy.

Supplier Costs and Margin

Electricity bills will also include a component to cover supplier costs and margin.

VAT

Value added tax (VAT) is applied to electricity at a reduced rate (currently 5%) for average consumption less than 33kWh per day, above that the standard rate is applied.