



Regulated Tariff Values

Information Note

15 August 2011

1 – Introduction

Electricity Suppliers in Northern Ireland pay a number of regulated charges which they in turn must pass on to their customers. Regulated charges for the use of the electricity distribution network in Northern Ireland and a levy known as the Public Service Obligation (PSO) are set by NIE and SONI, and the maximum amount recoverable is approved by the Utility Regulator. Other regulated charges, including Capacity Payments, 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 2011, 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 NIE's website. SONI's revised tariffs for use of the transmission network are now published on the SONI website.

Electricity bills will 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 a levy known as the Public Service Obligation (PSO). NIE are forecasting a total demand for 2011/12 of 8,228 GWhs compared to the forecast for this year of 8,446 GWhs. This represents a decrease of 2.6%.

2.1 Northern Ireland Network Charges

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

Distribution Use of System (DUoS) Charges:

The maximum amount recoverable has increased by 14.1% (c£20M). Of the £20M increase in DUoS charges, 86% is due to an under-recovery in the 2010/11 tariff year (almost half of this is due to inflation being higher than forecasted for the 2010/11 tariffs, and the rest is due to other forecasting inaccuracies). As well as this, additional capital expenditure was incurred.

Transmission Use of System (TUoS) Charges:

The maximum amount recoverable has increased by 34.8% (c£10M). The increase is due predominantly to an under-recovery last year and extra capital spend associated with development of the transmission network and the connection of renewable sources of energy.

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 2011/12 has increased by 3.8%. This is due to Ancillary Services expenditure and a new Price Control for SONI being implemented.

Table 1: Northern Ireland Network Charges

	2010/11	2011/12		
	£m	£m	% Change (nominal)	% Change (real)¹
Distribution Charges (DUoS)	148.6	169.5	14.1%	8.1%
Transmission Charges (TUoS)	30.1	40.571	34.8%	27.7%
Support Charges (SSS)	24.7	25.63	3.8%	-1.8%
Total Network Charges	203.4	235.7	15.9%	9.8%

Table 1 shows that the maximum amount recoverable for network charges increased by 15.9% (nominal). Given that demand is forecast to decrease by 2.6%, average unit charges will increase by around **17%**.

2.2 Northern Ireland Public Service Obligation (PSO) Charge

¹ RPI has increased by 4.16% in the 9-month period between October 2010 and June 2011. Assuming a similar increase between June and October 2010 would result on year-on-year inflation of 5.55%.

The Public Service Obligation (PSO) is a levy which is charged at a flat rate on all units of electricity demand. The components of this levy are described below and year-on-year movements are shown below and details of the year-on-year changes in the maximum amount recoverable are set out in table 1 below.

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

	2010/11	2011/12		
	£m	£m	% Change (nominal)	% Change (real)
NFFO/ROF	-1.5	0.4	126	125
Landbank	0.1	0.1	0.0	-5.3
Ballylumford CBO	20.7	11.68	-43.6	-46
Kilroot FGD	1.4	0.0	-100	-105.6
Legacy Generation Costs	5.6	-1.57	-128	-126.6
Market Opening Costs	7.1	7.2	1.4	-4
NISEP + incentive	8.4	8.8	4.8	-0.7
IME3 costs	0	0.15	n/a	n/a
Enduring Solution	0	2.73	n/a	n/a
Total PSO Charges	41.8	29.49	-29.4	-33.2

Table 2 shows that the maximum amount recoverable under the PSO levy reduces by 29.4% (nominal). Given that demand is forecast to decrease by 2.6%, average unit charges will decrease by around 28%.

NFFO/ROF Charges:

The Non-Fossil Fuel Obligation (NFFO) contracts and the associated ROFs are managed by Power NI. These are contracts put in place to encourage renewable generation prior to the ROCs scheme being introduced. Any costs associated with these processes are claimed through the PSO. The amount for 2011/12 is £0.4m

CBO and Kilroot FGD Costs:

The Ballylumford Customer Buy-Out (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 (FGD) costs are due to a clause in the Power Purchase Agreement which allowed recovery of these cost since 2007. These costs ended 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 privatisation of the industry back in 1992. PPB purchase power under the terms of these contracts and then sells this power in the Single Electricity Market (SEM). Any profit or loss is levied on all consumers in Northern Ireland via the PSO.

The PPB business and the associated generation contracts are forecast to benefit consumers £1.57m in the 2011/12 tariff year. This compares to a net cost of £5.61m in the 2010/11 tariff year. The swing is explained by a number of factors, the most significant of these are listed below:

- PPB is expected to make a profit from trading power in the spot market in 2011/12, compared to a loss in 2010/11.
- 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 a profit from these hedges during 2011/12 compared to a loss in 2010/11.
- In 2011/12 PPB is expected to make a greater profit from the sale of excess carbon credits than in 2010/11, whereas going into the 2009/10 tariff year they expected to have to purchase credits.

NISEP Costs:

A levy is imposed on all demand to fund the Northern Ireland Sustainable Energy Programme (NISEP). The objective of this programme is to promote energy efficiency with particular regard to vulnerable electricity consumers. The increase for 2011/12 is in line with RPI.

Market Opening Costs and Enduring Solution:

This charge is for the capital and operating costs for the 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 below.

All island forecast demand for 2011/12 is 34,030 GWhs compared to the forecast last year for 2010/11 of 36,990 GWhs, representing a decrease of 8%. This has the effect of increasing average unit costs.

Table 3: Charges Regulated by the SEM Committee

	2010/11	2011/12		
	€m	€m	% Change (nominal)	% Change (real)
Capacity Charge ²	546.81	530.26	-3%	-8.1%
Imperfections Charge	107.32	185.2	72.6%	63.5%
Market Operator Charge	23.62	24.86	5.2%	-0.28%
Total Charges	677.75	740.32	9.23%	3.5%

Capacity Charges:

² The capacity charge is calculated and published on a calendar basis, these numbers have been adjusted to tariff year values for comparison with the other SEM 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.

The total capacity charge for 2010/11 is down by 3%.

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 is mainly to cover 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.

The imperfections allowance has increased by 72.6%. This has been due to the rising cost in fuel prices, outages on a number of generators increasing reserve constraint costs and higher than forecast system demand over the winter months causing expensive generation to be constrained on.

Market Operator Charge:

SEMO incurs operational costs while carrying out their functions and recovers these costs, as well as capital related costs and a rate of return, through Market Operator tariffs and fees, which are levied on market participants. To facilitate this recovery of costs, the Market Operator Licence requires SEMO to submit proposals on its allowed revenue and the charges required to recover this revenue to the RAs. The current tariff period started on 30 September 2011 i.e. it covers a 36 month period from 1 October 2010 to 30 September 2013.

The allowance for market operations has increased by 5.2% in nominal terms. This has been due to incidence of capital investment projected to the next year. However given the predicted amortization of start up costs incurred in the creation of the market, the tariffs for 2012 onwards should be considerably reduced.

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 behaviour in the spot market, the wholesale energy component of bills is not regulated for most consumers. In Northern Ireland this component remains regulated for customers (mainly domestic) of the incumbent Supplier, Power NI. Further information will be made available from September regarding changes to the Power NI regulated tariff from 1 October 2011.

Climate Change Levy (for business only)

The Climate Change Levy (CCL) was introduced on 1 April 2001. Non-domestic electricity customers pay the levy at a rate of 0.485p/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.

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 rate of 5% for average consumption less than 33kwh per day, above that the standard rate is applied.