Regulated Tariff Values

Information Note

22 August 2012

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 System Operator Northern Ireland (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 Single Electricity 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 2013, together with explanations for these changes.

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

NIE, SONI and SEMO tariffs are set to reflect the total amount that can be recovered in the forthcoming tariff year, based on the 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. SONI's revised tariffs for use of the transmission network are now published on their website. The charges levied by SEMO related to the SEM can be found on their website.

2 – Charges regulated by the Utility Regulator

The Utility Regulator regulates network charges and the PSO. NIE are forecasting a total demand for 2012/13 of 8043 GWhs compared to the forecast for this year of 8,228 GWhs. This represents a decrease of 2.2%.

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 increased by 1.4%, which is lower than inflation. This real price decrease is due to a high k factor (an under recovery in 2010/11) being included in the tariffs for 2011/12. This under recovery was primarily due to falling demand. While NIE also predict an under recovery for the current tariff year, due to the continuing fall in demand, this is significantly less than for the previous year.

This decrease has been partially offset by NIE's 'regulated entitlement' increasing in line with inflation. The method of calculating NIE's regulated entitlement is set out in annex 2 of its licence. The licence and tariffs reflect the conditions specified for regulatory period four (RP4) as we are currently considering responses to our draft determination for regulatory period five (RP5). Any difference between the actual amounts allowed (based on the RP5 Final Determination) and the amount included in the tariffs for the year from 1 October 2012 to 30 September 2013 will be settled via the K factor in the TUoS and DUoS tariffs next year.

Transmission Use of System (TUoS) charges

The maximum amount recoverable has increased by 5.1%. Generators participating in the SEM pay 25% of this amount. The increase is due to network development on the transmission network including reinforcement of the network for renewable generation. In addition, SONI under recovered the amount of revenue that they should have collected from customers in 2011/12. Under the terms of their licence, this is added to the amount they are allowed to recover from supplier TUoS for 2012/13.

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 2012/13 has increased by 23.7%. This is due to increased ancillary services to support intermittent generation and an under recovery in tariff revenue from previous years.

Collection Agency Income Requirement (CAIR)

The Moyle Interconnector came into service in 2002. Up until this year, the sales of capacity have covered its costs. However, in 2012 it is expected to have a shortfall in its income. This is due to:

- increased bond payments due to indexation;
- introduction of a new interconnector in the SEM; and
- loss of sales due to outages.

Under the terms of its licence, SONI collect the money to cover this and then pass it onto Mutual Energy who own the Moyle Interconnector. The amount to be collected in the tariff year 2012/13 is £14.5 million.

Overall network charges

Table 1 shows that the maximum amount recoverable for network charges increased by 10.6% (nominal) between 2011/12 and 2012/13. Given that demand is forecast to be lower than last year's forecast by 2.2%, average unit charges will increase by around 13.1% (nominal) or 9.7% after adjustment for inflation**.** The DUoS and TUoS charges vary by time of day, so the precise impact will depend on the consumption profile of individual customers.

Table 1: Northern Ireland network charges

	2011/12	**2012/13**		
	£m	**£m**	**% Change (nominal)**	**% Change (real)[1] 3% OFBR**
Distribution charges (DUoS)	169.5	171.8	1.4%	-1.7%
Transmission charges (TuoS)	40.6	42.6	5.1%	2.0%
Support charges (SSS)	25.63	31.7	23.7%	19.9%
CAIR	0	14.5	n/a	n/a
Total network charges	**235.7**	**260.6**	**10.6**	**7.3%**

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 this levy and year-on-year movements are shown in table 2 and details of the year-on-year changes in the maximum amount recoverable are set out in table 1.

Table 2 shows that the maximum amount recoverable, under the PSO levy between 1 October 2012 and 30 September 2013 is reduced by 32.4% (nominal). Given that

[1] RPI (retail price index) is predicted by the Office for Budget Responsibility to increase by 3.1% over the period October 2011 to October 2012

demand is forecast to be lower than last year's estimate by 2.2%, average unit charges should decrease by at least 31%. However, the actual decrease will be greater than this due to restrictions in NIE's licence. The restrictions mean that they must use best endeavours to ensure that they do not recover more than the amount paid out in any financial year (in this case April 12 – March 13).

The unit rate will therefore be 37% lower.

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

	2011/12	**2012/13**		
	£m	£m	% Change (nominal)	% Change (real)
NFFO/ROF	0.4	-0.8		
Landbank	0.1	0.2		
Ballylumford CBO	11.68	0.0		
Legacy generation costs	-1.57	5.3		
Retail Market IT	10.1	11.5		
NISEP + incentive	8.8	9.6		
K factor (negative = over recovery)	3.5	-3.5		
Total PSO charges[2]	**33.0**	**22.3**	**-32.4%**	**-35.4%**

NFFO/ROF charges

The Non-Fossil Fuel Obligation (NFFO) contracts and the associated Renewable Output Factor (ROF) are managed by Power NI. These are contracts put in place to encourage renewable generation prior to the renewable obligation certificates scheme being introduced. Any costs associated with these processes are claimed through the PSO. The amount for 2011/12 is a contribution to the PSO of £0.8m.

[2] Charges relate to the tariff year 1 October 2012 to 30 September 2013. Tariff must reflect restrictions in NIE's licence which relate to the amount of money they can collect over the period from 1 April 2012 to 31 March 2013.

CBO costs

The Ballylumford Customer Buy-Out (CBO) costs arose from a buy-out of power purchase agreements back in 2003. These costs ended in March 2012.

Legacy generation costs

The NIE Power Procurement Business (PPB) has Power Purchase Agreements with the power station 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 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 £5.3m in the 2012/13 tariff year. This compares to a net benefit of £1.57m forecast for the 2011/12 tariff year. The swing is mostly related to forecasting errors last year, where PPB incurred £4.4 million more costs than were allowed for in the tariff. These were due to:

- Gas transportation costs have increased significantly. This will continue into the next tariff year.
- The generator charges for use of the all-island transmission system were not known at the time the PSO was finalised. The final tariffs for the stations under contract were higher than expected.

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 customers. The amount to be recovered is an estimate prior to the formal consultation on the level of NISEP from 1 April 2013.

Market opening costs and Enduring Solution

This charge is for the capital and operating costs for the IT systems required to facilitate retail competition. New market IT systems were commissioned in May 2012. In addition to a number of other benefits, the new market systems have increased the capacity of the IT systems that process changes of supplier.

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 2012/13 is 32,900GWh compared to the forecast for 2011/12 of 34,030GWh, representing a decrease of 3.3%. This has the effect of increasing average unit costs.

Table 3: Charges regulated by the SEM Committee

	2011/12	2012/13		
	€m	€m	% Change (nominal)	% Change (real[3])
Capacity charge[4]	530.26	535.37 [5]	1.0%	-2.1%
Imperfections charge	185.20	154.90	-16.4%	-18.9%
Market Operator charge	24.86	24.16	-2.8%	-5.7%
Total Charges	740.32	714.43	-3.5%	-6.4%

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.

[3] Excludes the impact of changes in the exchange rate as the effect this will have on final customer prices will vary by supplier and timing of contracts.

[4] 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.

[5] Based on the values included in the consultation paper: AIP/SEM/12/029 available at www.allislandproject.org

The total capacity charge for 2012/13 will be published by the end of August. It is expected to be only slightly higher than last year in euro terms. However, movements in exchange rate mean that this value has actually fallen in sterling terms.

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 North-South 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 decreased by 16.36%. This reduction is due to the adjustment relating to the difference between forecast and actual for the previous year being less.

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 Regulatory Authorities (RAs). The current tariff period started on 30 September 2011 and covers the period from 1 October 2010 to 30 September 2013.

The allowance for market operations has decreased by 2.82% in nominal terms. The expectation that tariffs for 2012 onwards should be considerably reduced have been countered by the need for additional capital and operating expenditure required for intraday trading which was implemented in July 2012.

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 customers. In Northern Ireland this component remains regulated for customers (mainly domestic) of the incumbent supplier, Power NI. Information about changes to the Power NI regulated tariff from 1 October 2013 is published separately.

Climate Change Levy (for business customers only)

The Climate Change Levy (CCL) was introduced on 1 April 2001. Non-domestic electricity customers pay the levy at a rate of 0.509p/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 HMRC 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 consumption, the standard rate of 20% is applied.