Regulated Tariff Values

Information Note

30 August 2013



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

Our Mission	Value and sustainability in energy and water.
Our Vision	We will make a difference for consumers by listening, innovating and leading.

Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference.

Act with integrity.

Abstract

Electricity suppliers in Northern Ireland pay a number of regulated charges which they in turn recover from their consumers. This information paper, which we produce each year, details each regulated charge that make up electricity bills for both business and domestic consumers. The purpose of the information note is to communicate an explanation of the approved changes which will take effect from 1 October 2013.

The paper covers the tariffs associated with electricity networks, electricity market operation, SEM charges and the PSO levy.

The network costs for customers and the costs associated with the operation of the wholesale market have increased at a lower rate than inflation, while the PSO costs have decreased significantly.

Audience

Electricity customers, businesses, suppliers and consumer groups.

Consumer impact

This paper provides information on each element of the regulated tariffs which make-up the cost of electricity paid by business and domestic consumers. The reasons for the changes are discussed within the paper.

Contents

1 Introduction

Electricity suppliers in Northern Ireland pay a number of regulated charges which they in turn recover from 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. Each party publishes the tariffs on their websites.

2 Charges regulated by the Utility Regulator

The Utility Regulator regulates network charges and the PSO.

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 Distribution Use of System (DUoS) charges are derived from the five-year price control revenues put in place for NIE by the Utility Regulator. The next five-year price control (referred to as RP5) has been rejected by NIE and has been referred to the Competition Commission (CC) to make a final determination.

We formally granted an extension to the Competition Commission (CC) in relation to the deadline for completing its inquiry into the price control conditions (RP5) for Northern Ireland Electricity Limited. This follows a request for the extension by the CC. The period for the CC making its report will now expire on 29 April 2014, which is an extension from 29 October 2013.

The CC has issued a revised administrative timetable on its website (http://www.competition-commission.org.uk/our-work/directory-of-all-inquiries/northern-ireland-electricity-price-determination). It is the current intention of the CC to publish the provisional findings by the end of October 2013 and the final determination by the end of December 2013.

In anticipation of the outcome of the RP5 price control referral, the DUoS charges for the tariff year October 2013 to September 2014 are to remain at the same unit rate level as those in place for the tariff year October 2012 to September 2013. This will lead to a small increase related due to volume.

The outcome of the CC process will determine what the revenue entitlement should be for this period. Any difference between the amounts allowed, based on the CC determination and the amount included in the tariffs for the year from 1 October 2013 to 30 September 2014, will be settled via the K factor in the TUoS and DUoS tariffs next year.

Transmission Use of System (TUoS) charges

Despite the basic charges being held at the same level as last year due to the CC process, the maximum amount recoverable has increased by 1.8% (nominal). This increase is due to network development on the transmission network including reinforcement of the network for renewable generation. Generators participating in the SEM pay 25% of this amount.

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 the tariff year October 2013 to September 2014 has decreased by 15.1%. This is due to a decrease in ancillary services to support intermittent generation and an over recovery in tariff revenue from previous years.

Collection Agency Income Requirement (CAIR)

The Moyle Interconnector came into service in 2002. Up until 2012/13 tariff year, the sales of capacity have covered its costs. However, in 2013/14 it is expected to continue to have a shortfall in its income.

Under the terms of its licence, SONI collect the money to cover this and then pass it onto Moyle Interconnector Limited. The amount to be collected in the 2013/14 tariff year is £19.81 million.

Correspondence between the UR and Moyle Interconnector Limited regarding the repair of the interconnector is available from our website[1].

Overall network charges

Table 1 shows that the maximum amount recoverable for network charges increased by 1.5% (nominal) between 2012/13 and 2013/14. The DUoS and TUoS charges vary by time of day, so the precise impact will depend on the consumption profile of individual customers.

[1]http://www.uregni.gov.uk/publications/correspondence_between_the_ur_and_moyle_interconnector_regarding_the_repair/

Table 1: Northern Ireland network charges

	2012/13	2013/14		
	£m	£m	% Change (nominal)	% Change (real)[2] 2.8%
Distribution charges (DUoS)	171.8	174.4	1.5%	-1.3%
Transmission charges (TuoS)	42.7	43.5	1.8%	-0.9%
Support charges (SSS)	31.7	26.9	-15.1%	-17.5%
CAIR	14.5	19.8	36.6%	32.9%
Total network charges	**260.7**	**264.4**	**1.5%**	**-1.3%**

[2] RPI (retail price index) is predicted by the Office for Budget Responsibility to increase by 2.8% for the year to 2014 (Q1).

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.

Table 2 shows that the maximum amount recoverable, under the PSO levy between 1 October 2013 and 30 September 2014 (2013/14) is reduced by 35.1% (nominal).

Table 2: Northern Ireland PSO charges

	2012/13	2013/14		
	£m	£m	% Change (nominal)	% Change (real)
NFFO/ROF	-0.8	0.6		
Landbank	0.2	0.2		
Legacy generation costs	5.3	-2.6		
Retail Market IT	11.5	6.9		
NISEP + incentive	9.6	9.2		
K factor (negative = over recovery)	-3.7	0.1		
Total PSO charges[3]	**22.1**	**14.3**	**-35.1%**	**-36.9%**

Non-Fossil Fuel Obligation (NFFO) /Renewable Output Factor (ROF) charges

The Non-Fossil Fuel Obligation (NFFO) contracts and the associated Renewable Output Factor (ROF) are managed by Power NI. These contracts were 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. These contracts ended in January 2013 so this is

[3] 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.

the last year any costs will apply for NFFO contracts.

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 save customers £2.6million in the 2013/14 tariff year. This compares to a net cost of £5.3million forecast for the 2012/13 tariff year. The difference in this year is related to a number of key factors:

- A reduction in "K" factor under recovery from the previous tariff year.
- An estimated net increase in market related revenues.

Northern Ireland Sustainable Energy Programme (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.

Market opening costs

This charge is for the capital and operating costs for the legacy IT systems required to facilitate retail competition. As part of the RP5 consultation, it was highlighted that these costs should be moved to the DUoS tariff. The Utility Regulator intends to consult on this matter later in 2013. The reduction in the cost is due to the 'enduring solution' IT costs being recovered under DUoS now to ensure that these costs are allocated in a cost reflective manner to the appropriate customers.

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 2013/14 is 33,220GWh compared to the forecast for 2012/13 of 32,900GWh, representing an increase of 1%. This has the effect of decreasing average unit costs.

Table 3: Charges regulated by the SEM Committee

	2012/13	**2013/14**		
	€m	**€m**	**% Change (nominal)**	**% Change (real[4])**
Capacity charge[5]	537.6	555.9	3.4%	0.6%
Imperfections charge	154.9	146.7	-5.3%	-7.9%
Market operator charge (provisional)	24.2	19.9	-17.6%	-19.9%
Total charges	**716.7**	**722.5**	**0.8%**	**-1.9%**

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

[4] 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.
[5] 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.

security standards. Suppliers in turn pay a capacity charge which is profiled monthly.

The total capacity charge for 2013/14 has increased 3.4%. This increase is due to a higher capacity requirement as the forecast indicates that the desired level of generation should increase and an increase in inflation.

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.

The imperfections allowance has decreased by 5.3%. 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 its functions and recovers these costs, together with capital related costs including 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 submits proposals on its allowed revenue and the charges required to recover this revenue to the Regulatory Authorities (RAs). The next price control will start on 1 October 2013 and covers the period from 1 October 2013 to 30 September 2016.

The market operator revenue requirement tariffs for 2013/14 are to be submitted by SEMO in early September. The provisional market operator tariffs are based on the 2013-2016 SEMO price control decision paper published on 6 August 2013. The allowance to be recovered is not expected to significantly change from the provisional figure and therefore a decrease in the region of 17.6% in nominal terms is a reasonable expectation, due to a reduced capital expenditure requirement.

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.

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 0.524p/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[6] 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 (fewer than 33kWh per day). Above that level of consumption, the standard rate of 20% is applied.

[6] Her Majesty's Revenue & Customs