

Utility Regulator Regulated Tariff Outlook 2012/13



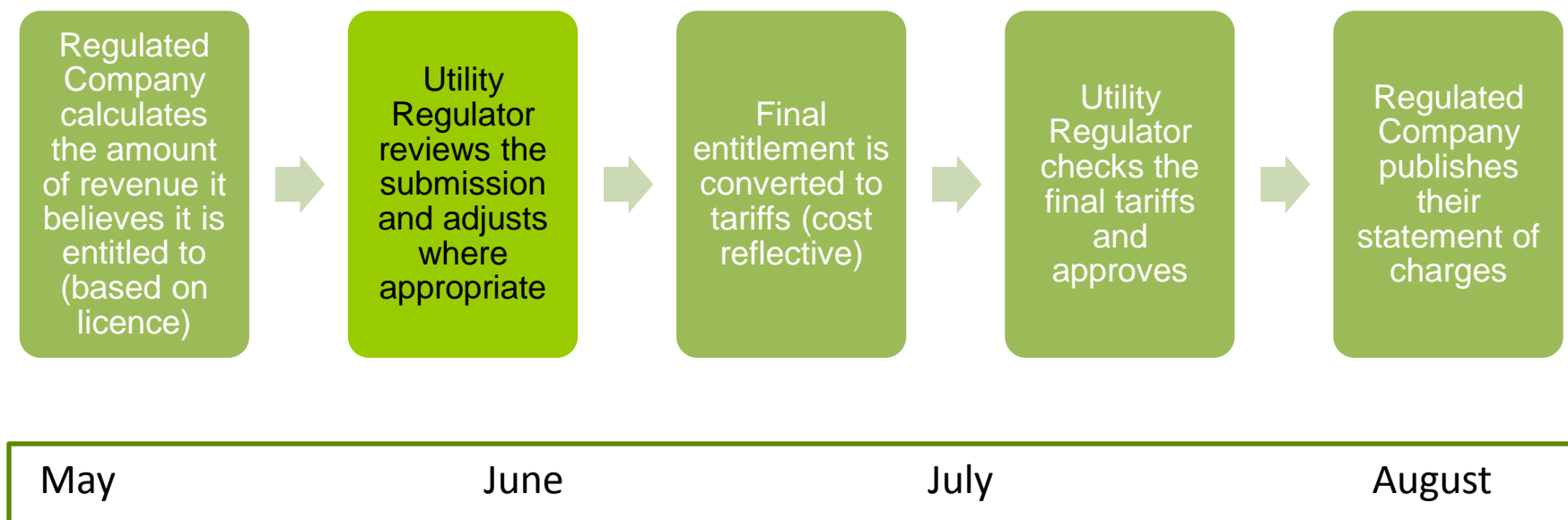
Purpose of this Briefing

- To provide an **early indication** of expected regulated tariffs from 1st October 2012
 - Use of System
 - Market charges
 - System Support Services
 - PSO levy
- To outline the process to final tariffs
- To provide an indication of movements in wholesale energy prices
- All prices are nominal (i.e. actual purchase prices)

Agenda

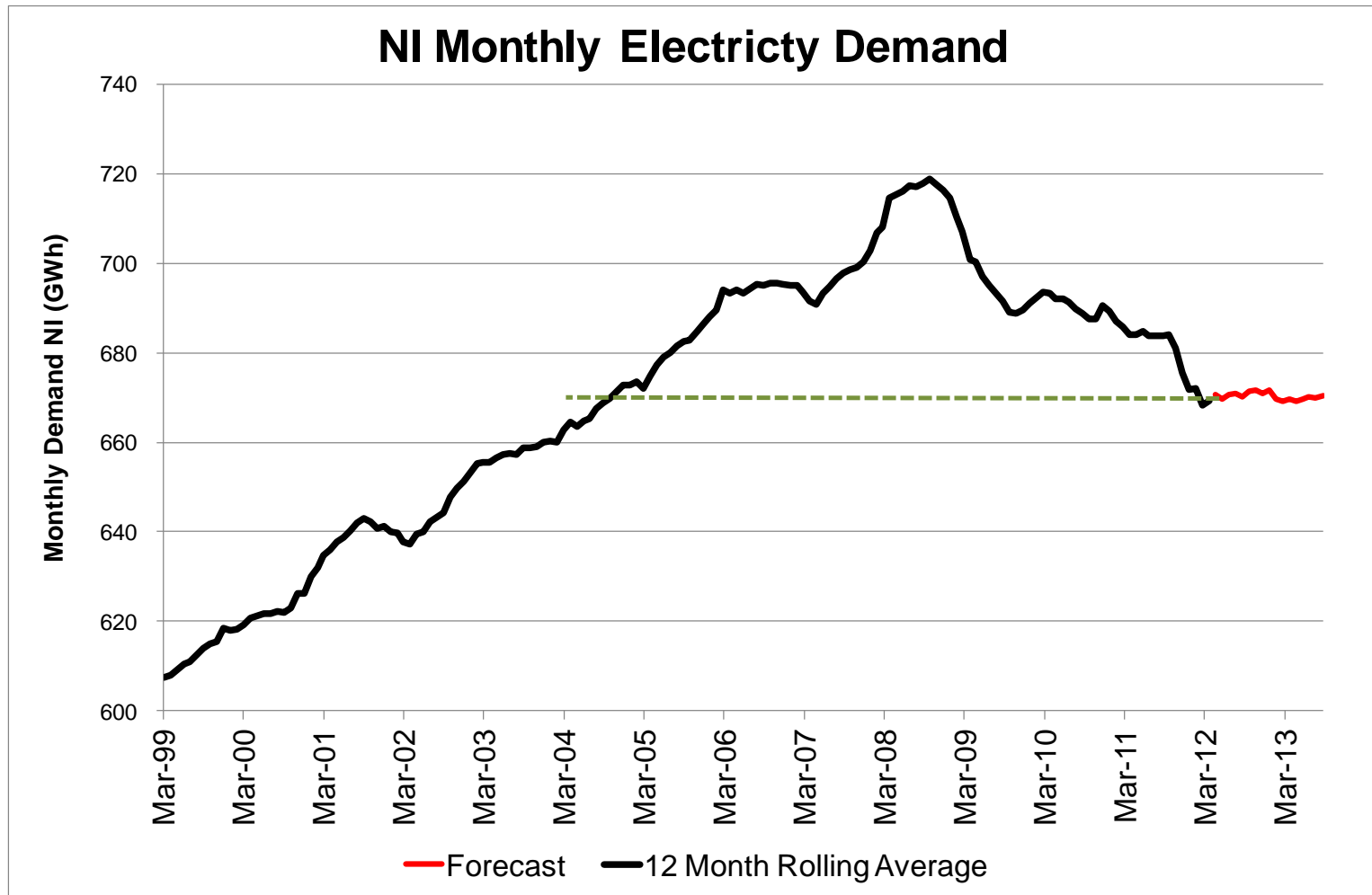
1. Introduction and welcome
2. Demand forecast
3. Use of system charges
4. System support services
5. PSO levy
6. Market charges
7. Process to final regulated tariffs
8. Movements in wholesale energy market

The Tariff Process

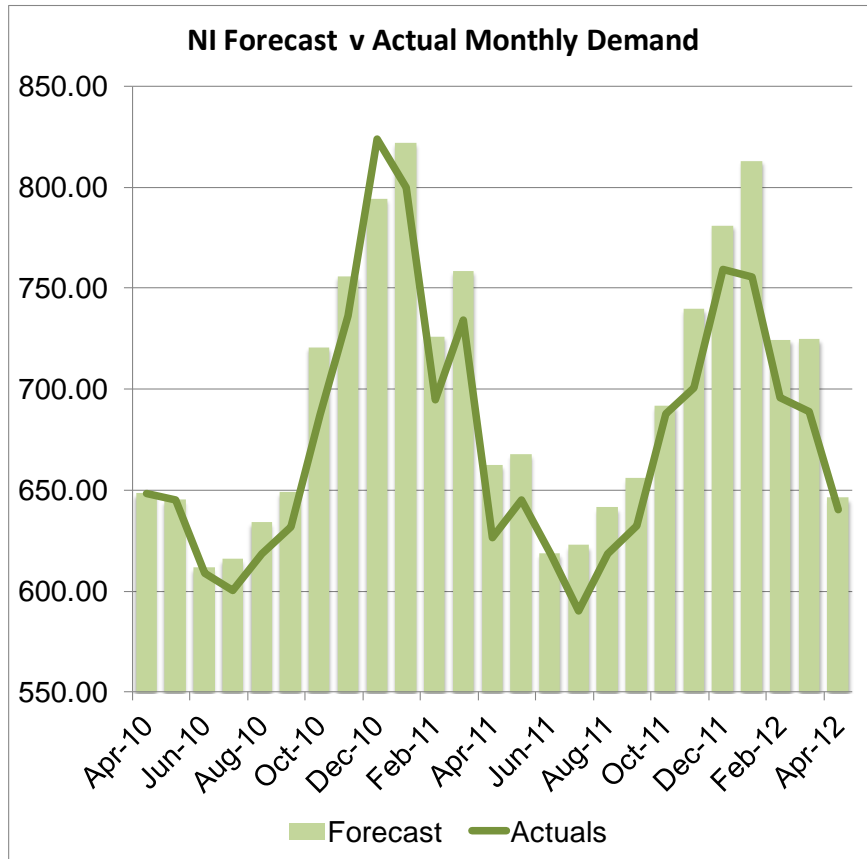


DEMAND FORECAST

Historic trends - electricity demand



Demand forecast for 2011/12



- Tariff = $\frac{\text{regulated revenue}}{\text{demand}}$
- Lower demand increases unit rates
- Lower demand than forecast results in an under-recovery
- Under-recovery is added to revenue for the following year
- In 2011/12 demand fell more than forecast
- Demand forecast for 2012/13 is lower than that forecast for 2011/12

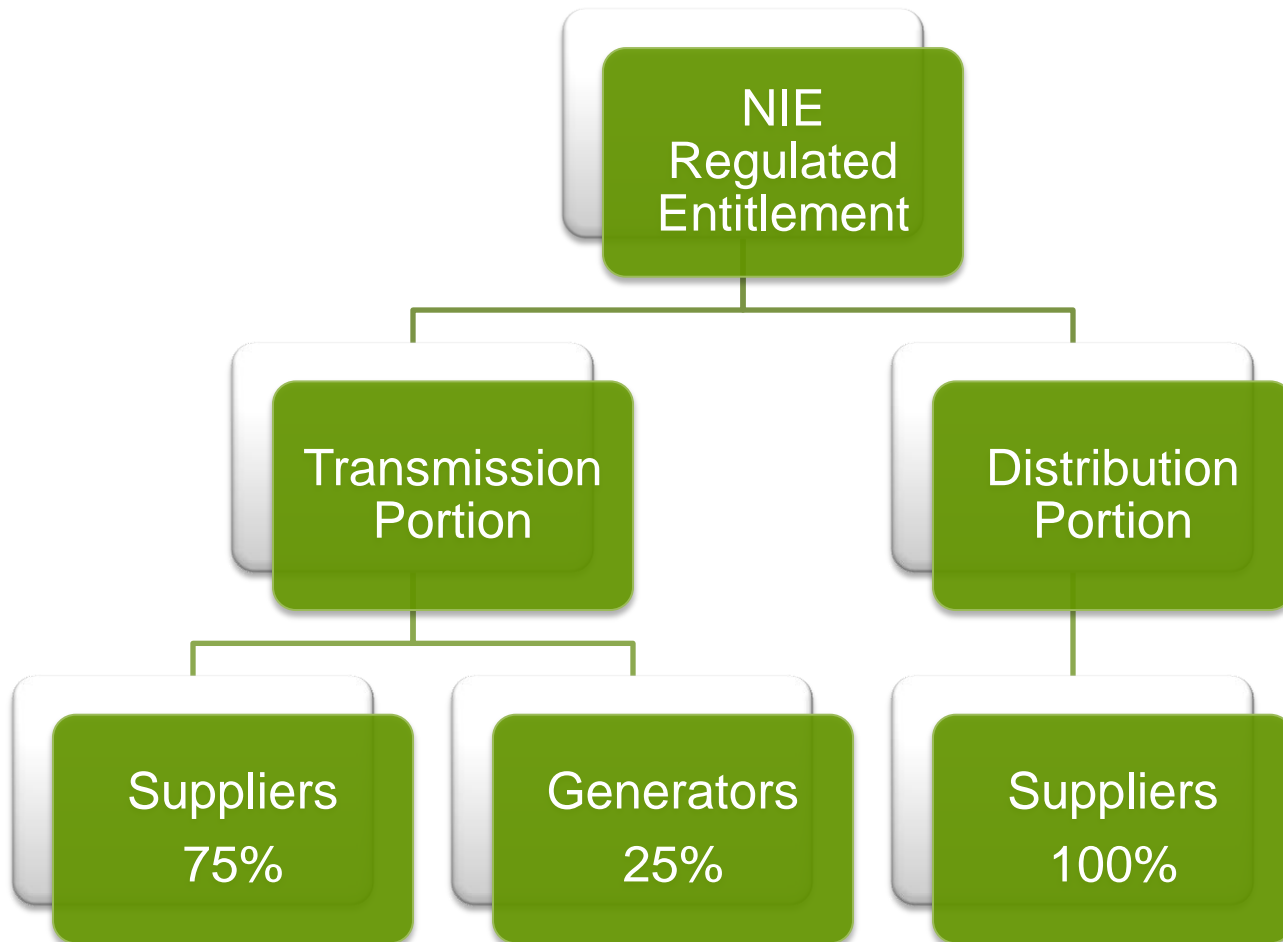
REGULATED TARIFFS

Regulated Tariffs

| Tariff Name | Charged by | Pays for | Tariff structure |
|-----------------------------------|------------|---|--|
| Distribution Use of System (DUoS) | NIE T&D | Cost of the distribution network | p/kWh (varies with time of day and time of year) |
| Transmission Use of System (TUoS) | SONI | Cost of the transmission network | p/kWh (varies with time of day and time of year) |
| System Support Services (SSS) | SONI | Balancing and controlling the system | p/kWh (flat) |
| PSO Levy | NIE T&D | Legacy costs and energy efficiency | p/kWh (flat) |
| Market Operator | SEMO | Cost of running the wholesale market | €/MWh (flat) |
| Imperfections Charges | SEMO | Difference between market and actual generation costs | €/MWh (flat) |
| Capacity Charges | SEMO | The availability of generation | €/MWh (varies with time of day and time of year) |

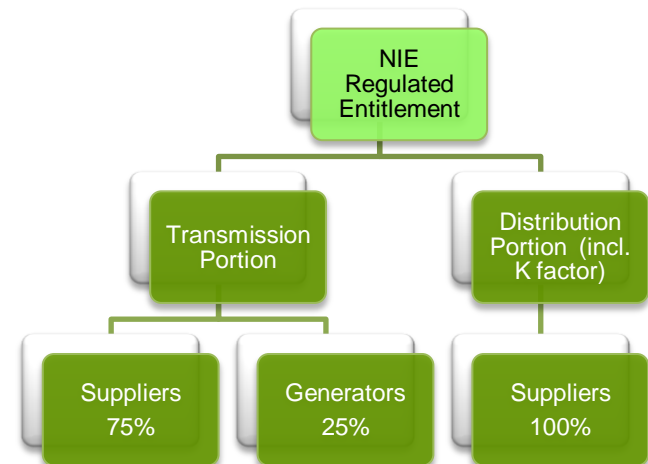
USE OF SYSTEM CHARGES

Overview of cost allocation



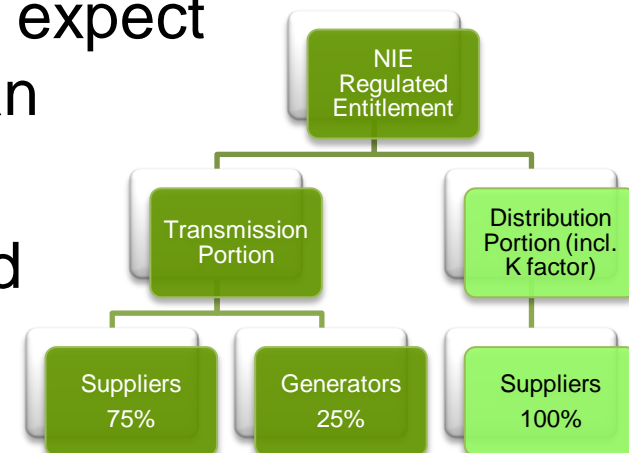
NIE T&D Regulated Entitlement

- NIE's price control (RP4) extended to 1 October 2012
- Draft determination for next price control (RP5) out to consultation
- In the interim, tariffs are based on current licence conditions
- Total for 2012/13 = £211.6 million
- This is an increase of 0.7%



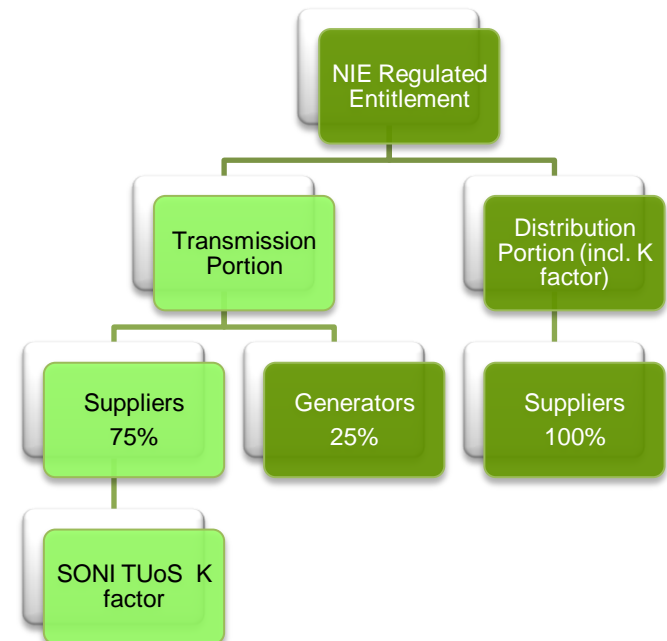
Distribution Use of System

- Charged by NIE T&D for providing, operating and maintaining the distribution system
- Total revenue that NIE T&D are allowed to recover in 2012/13 is £171.8 million (1.4% increase)
- Charges vary by voltage, maximum import capacity and time of use
- NIE T&D have informed us that they expect the DUoS unit rates to increase by an average of 5.5%
- Charging statement will be published on their website in August



Transmission Use of System

- SONI operate the transmission system
 - 110 kV and 275 kV
- They pay “rent” to NIE T&D for the system and recover this cost via the TUoS tariff
 - 75% suppliers
 - 25% generators across the island
- Billed based on loss adjusted consumption (not metered)

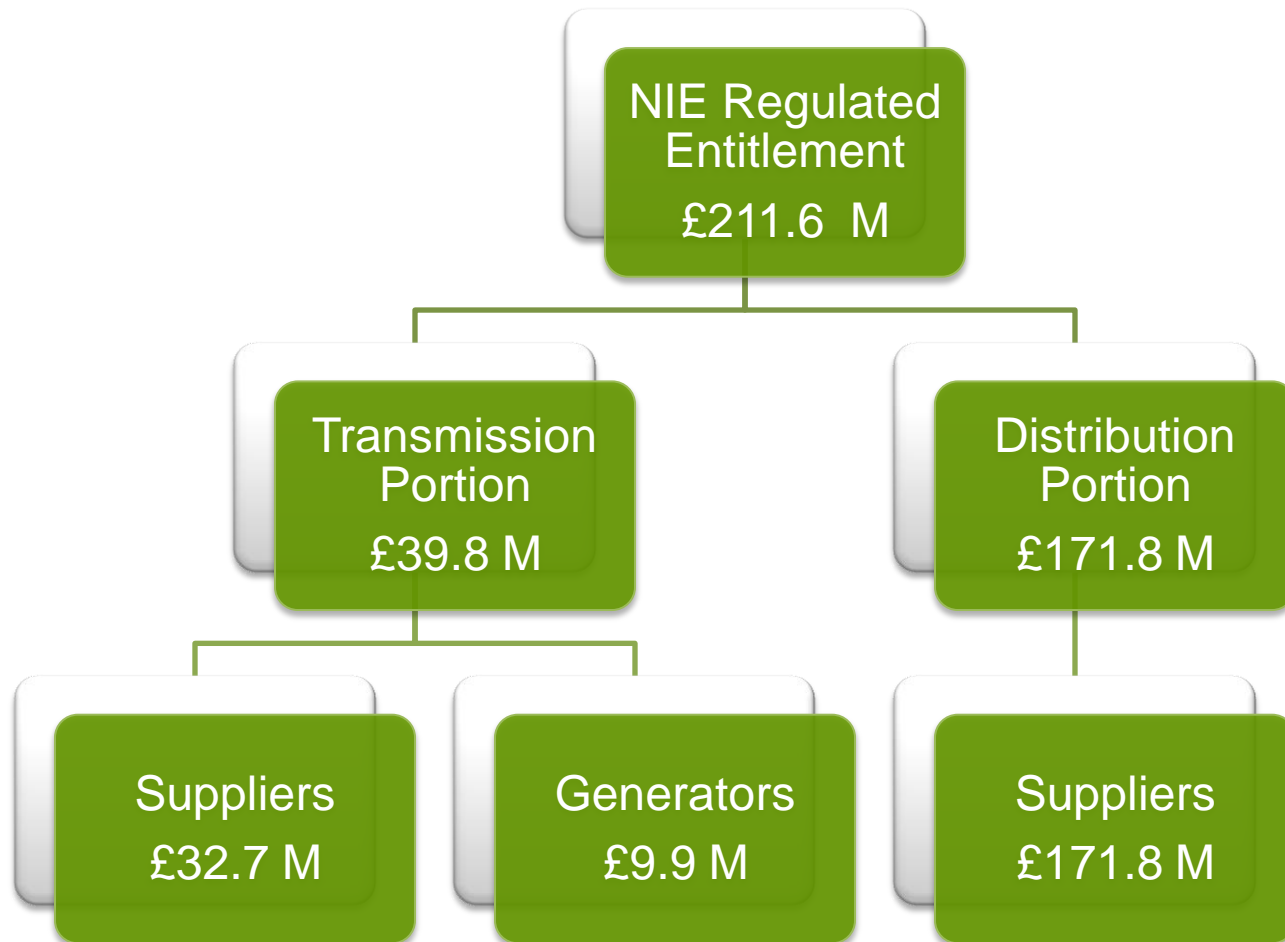


TUoS Costs

- Under recovery this year due to fall in demand
- Previous year's tariffs reduced by an over-recovery in 2010/11
- Total amount to be recovered from suppliers is £32.7 million
- Average increase of 29%
- The precise impact on individual consumers will depend on connection voltage and usage profile (time of day and time of year)

| | 2011/12 | 2012/13 | Change |
|--|-----------|-----------|---------|
| Transmission services Charge (paid to NIE) | £40.6 M | £39.8 M | -£0.8 M |
| Supplier share (75%) | £30.4 M | £29.8 M | -£0.6 M |
| SONI STUoS K factor | -£4.0 M | £2.9 M | £6.9 M |
| Total revenue | £26.4 M | £32.7 M | 24% |
| Demand forecast – loss adjusted (GWh) | 8863 | 8504 | -4.1% |
| Average p/kWh | 0.30p/kWh | 0.39p/kWh | 29% |

Overview of cost allocation



SYSTEM SUPPORT SERVICES

Components of SSS tariff

- The System Support Services tariff pays for:
 - Generators providing the ability to react to system problems (reserve and reactive power)
 - The costs of the transmission system operator
 - The costs associated with the Moyle interconnector to Scotland
- This is the first year that any funding has been required from customers for the Moyle interconnector

Ancillary Services

- Payments to generators for providing:
 - Reserve
 - Frequency response
 - Reactive power
- These keep the system stable
- Becoming more important due to increasing amounts of intermittent generation

| | 2011/12 | 2012/13 | Change |
|----------------------------|---------|---------|--------|
| Cost of Ancillary Services | £11.9 M | £13.0 M | 9.5% |

System Operator Costs

- The costs associated with controlling the network
- Defined in SONI's price control
- Under recovery this year due to falling demand

| | 2011/12 | 2012/13 | Change |
|-----------------------|---------|---------|--------|
| System operator costs | £16.1 M | £16.9 M | £0.8 M |
| SSS K factor | -£2.4 M | £1.7 M | £4.1M |
| Total revenue | £13.7 M | £18.6 M | 36% |

Moyle Costs (CAIRt)

- Moyle Interconnector came into service in 2002
- Historically Moyle capacity sales have covered its operating costs
- Expected cash flow shortfall from capacity sales to cover:
 - Increased bond payments due to indexation
 - Introduction of new interconnector in SEM
 - Loss of sales due to outages
- Shortfall collected by SONI then passed onto Moyle
- £14.5m for tariff year 2012/13

PSO LEVY

PSO Levy

- Power NI: any residual costs/income associated with the Northern Ireland Non-Fossil Fuel Obligation
- NIE T&D: costs of retail market opening and the Northern Ireland Sustainable Energy Programme (NISEP)
- PPB: costs associated with power purchase agreements made at privatisation in 1992. Indicative amounts at present.

| Company | 2011/12 | 2012/13 | Change | |
|----------|---------|---------|----------|------------|
| Power NI | £0.4 M | -£0.8 M | -£1.2 M | confirmed |
| NIE T&D | £22.5 M | £17.8 M | -£4.7 M | confirmed |
| PPB | £10.1 M | £4.5 M | -£5.6 M | indicative |
| Total | £33.0 M | £ 21.5M | -£11.5 M | |

MARKET CHARGES

Market Charges

- Costs are:
 - Market operator costs
 - Imperfections charges
 - Capacity payments
- All tariffs charged in €
- Market Operator Charges for 2012/13 are expected to reduce

| Market Operator Cost | 2011/12 | 2012/13 | Change |
|-----------------------|---------|---------|--------|
| € - all island amount | €24.7 M | €17.5 M | -29% |
| £ - all island amount | £21.9 M | £14.0 M | -36% |

Imperfections charges

- Predominantly Constraints Payments (92%)
- Generators receive constraint payments to keep them financially neutral for the difference between the market schedule and the actual dispatch.
- Why do Constraint Costs Arise?
 - Transmission: security of supply reasons
 - Reserve: security and stability of transmission system
 - Perfect Foresight: modelling software produces market schedule after real time (ex post) whereas TSOs have to react in real time to generator & interconnector availability, demand and wind output changes.
- Consultation ongoing

| | 2011/12 | 2012/13 | Change |
|-------|---------|---------|--------|
| €/MWh | 5.442 | 4.694 | -13% |
| p/kWh | 0.48 | 0.37 | -22% |

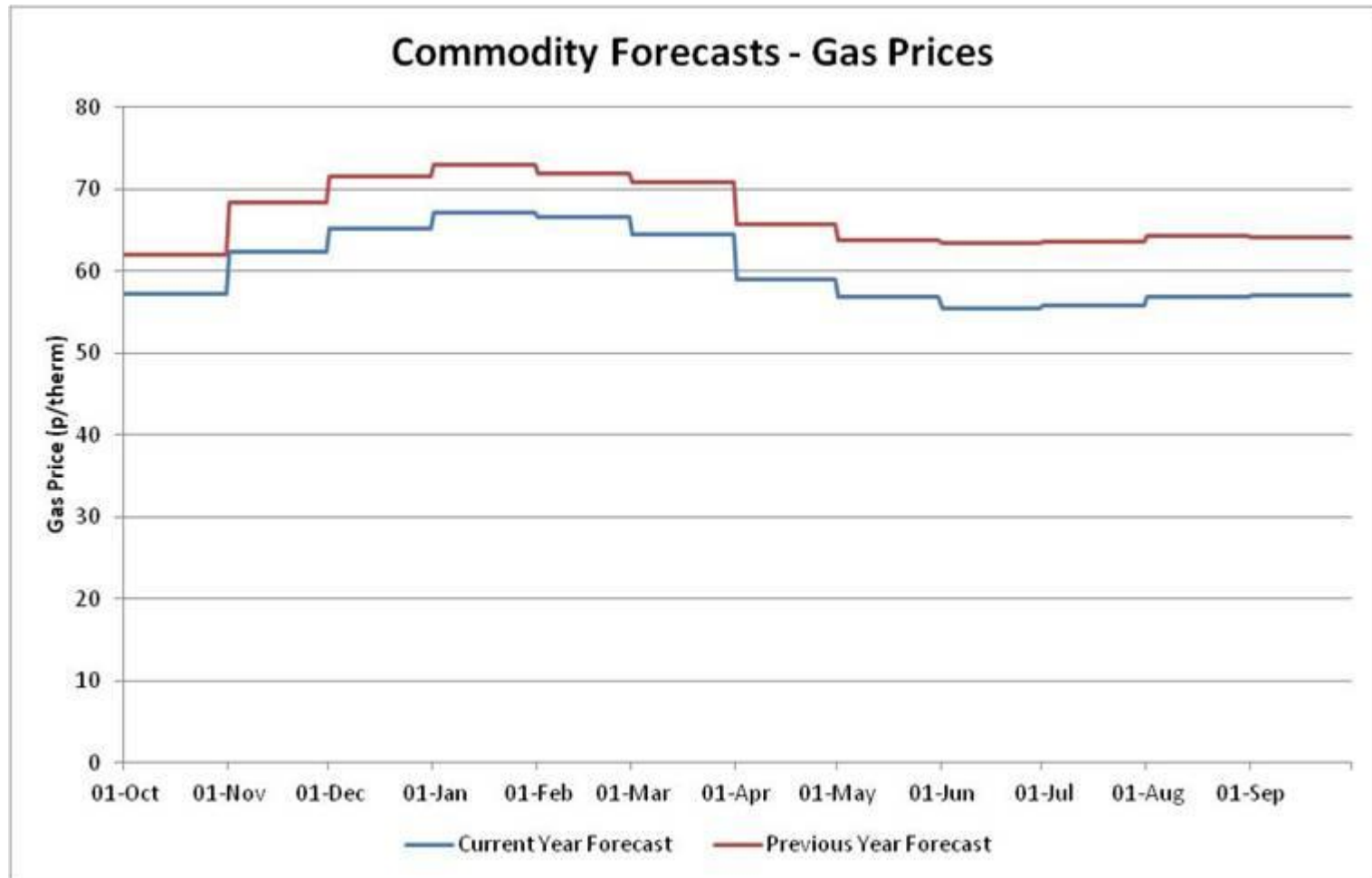
Capacity payment mechanism

- Pays generators for being available to generate
- Pot fixed per calendar year
- Consultation closed on 19 June 2012
- Currently reviewing responses
- SEM committee decision expected by end of July

| Capacity Pot | 2011 | 2012 | 2013 |
|-------------------------------|--------|--------|--------|
| € Million – all island amount | €544 M | €528 M | €529 M |
| £ Million – all island amount | £460 M | £455 M | £423 M |

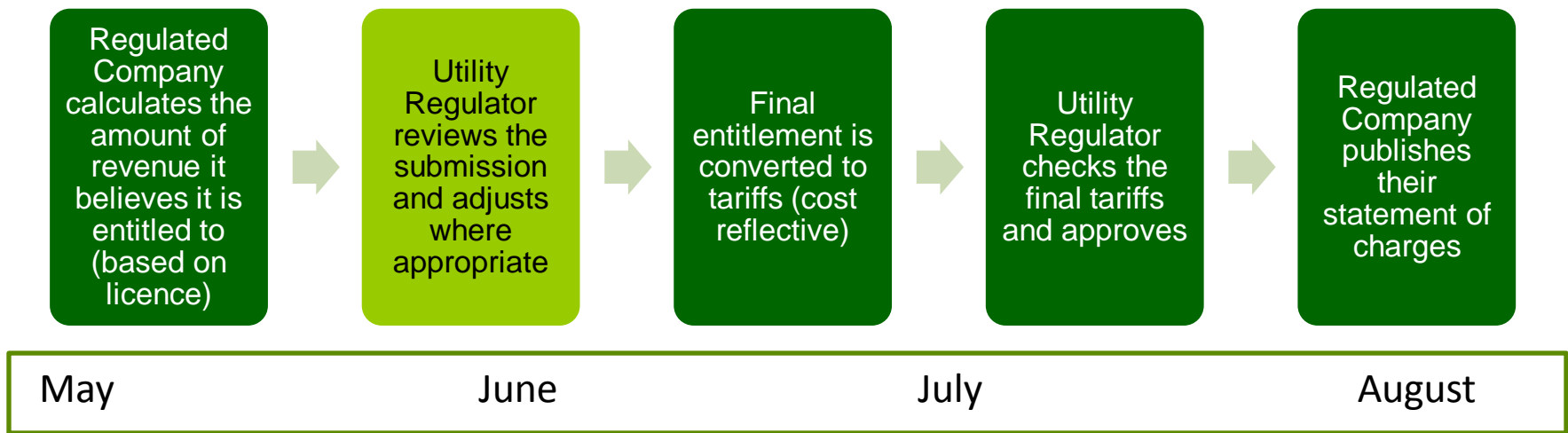
WHOLESALE ENERGY PRICE TRENDS

Gas Prices



PROCESS TO FINAL CHARGES

The Tariff Process



Next Steps

- Regulated Tariffs and Information Note published end 2nd Week August
- Power NI for regulated market (<150,000 units per year) published in late August
- Tariffs come into effect on 1st October

HEADLINES

Summary of estimated total regulated cost

| Tariff Name | 2011/12 | 2012/13 | Status |
|-----------------------------------|-----------------|-----------------|----------------------|
| Distribution Use of System (DUoS) | £169.5 M | £171.8 M | Total approved |
| Transmission Use of System (TUoS) | £26.4 M | £32.7 M | Total approved |
| System Support Services (SSS) | £25.6 M | £46.2 M | Assessment ongoing |
| PSO Levy | £33.0 M | £21.5 M | Assessment ongoing |
| Market Operator | £7.3 M | £4.7 M | Provisional |
| Imperfections Charges | £45.9 M | £41.3 M | Consultation ongoing |
| Capacity Charges | £151.7 M | £141.0 M | Consultation ongoing |
| Total | £459.3 M | £459.2 M | |

QUESTIONS?