

## NIE Energy Supply Tariff Announcement Q and As October 2010

### **Q.1 Why is the announcement on NIE Energy Supply's tariff being made now?**

**A.** This announcement on NIE Energy Supply (NIEES) domestic and regulated non-domestic electricity tariffs is part of the annual tariff review that is undertaken after consultation with, and due scrutiny by, the Utility Regulator. New tariffs usually commence on 1 October each year.

In light of the volatility of the forward gas prices which can impact NIEES' costs, together with lower levels of hedging, the Utility Regulator will work with NIEES to monitor actual outturn costs and revenues going forward. This information will be used to inform the decision regarding the need for any in-year review of tariffs.

### **Q.2 Does this announcement affect customers who buy their electricity from other suppliers?**

**A.** No. The Utility Regulator only directly regulates the prices of NIEES as they are in a dominant monopoly position in the domestic and small business sectors of the market. Our remit in relation to the regulation of other suppliers includes monitoring their service standards, the regulation and enforcement of licence conditions, enforcement action where required, and as an adjudicator in third party complaints and disputes.

We will continue to monitor the general operation of the domestic electricity market to ensure that customer interests are protected.

### **Q.3 What are the key elements of my bill?**

**A.** The final electricity bill of an NIEES domestic customer is made up of many components and the mix from one year to the next can change. However, at a high level, prices are made up as follows:

- around 60-70%, the largest component is wholesale energy costs. At present, wholesale prices continue to be volatile and have risen in comparison to last year;
- around 20-30% is regulated network and PSO tariffs. Whilst these charges have decreased by around 10%, it is important to note that this reduction represents a small percentage of the final electricity bill and is offset by increases in other elements (e.g. wholesale costs); and
- the 10% remaining is NIEES supplier charges and margin and some residual costs, which are regulated by the Utility Regulator.

**Q.4 How does the price of electricity in Northern Ireland compare against the rest of the UK and the Republic of Ireland (ROI)?**

**A. Comparison with ROI and GB domestic prices**

The October 2010 NIEES domestic standard tariff is lower than the equivalent ESB tariff. In 2010 the recently published ESB tariff is on average 14.4% higher than the NIEES standard domestic tariff. The table below compares the previous tariff level in October 09 and the current October 2010 level to the equivalent ESB urban and rural charges.

	October 2009	Higher than NIE £	Higher than NIE %	October 2010	Higher than NIE £	Higher than NIE %
<b>NIEES</b>	<b>£496</b>			<b>£496</b>		
ESB – urban	£545	£49	9.9%	£553	£57	11.5%
ESB – rural	£575	£79	15.9%	£582	£86	17.3%

Table 1: Domestic electricity costs based on average annual customer usage of 3,300kWh (including VAT, using a euro exchange rate of 1.21 for October 2010 and a rate of 1.16 for October 2009)

The following graph compares the October 2010 prices for Northern Ireland and ROI to the prices from the larger suppliers in GB.

**Domestic Price Comparisons including VAT - NIEES, ESB (ROI) and GB main suppliers (NI and ROI - Oct 10, GB - Sep 10)  
3,300 kWh annual consumption, standard credit**

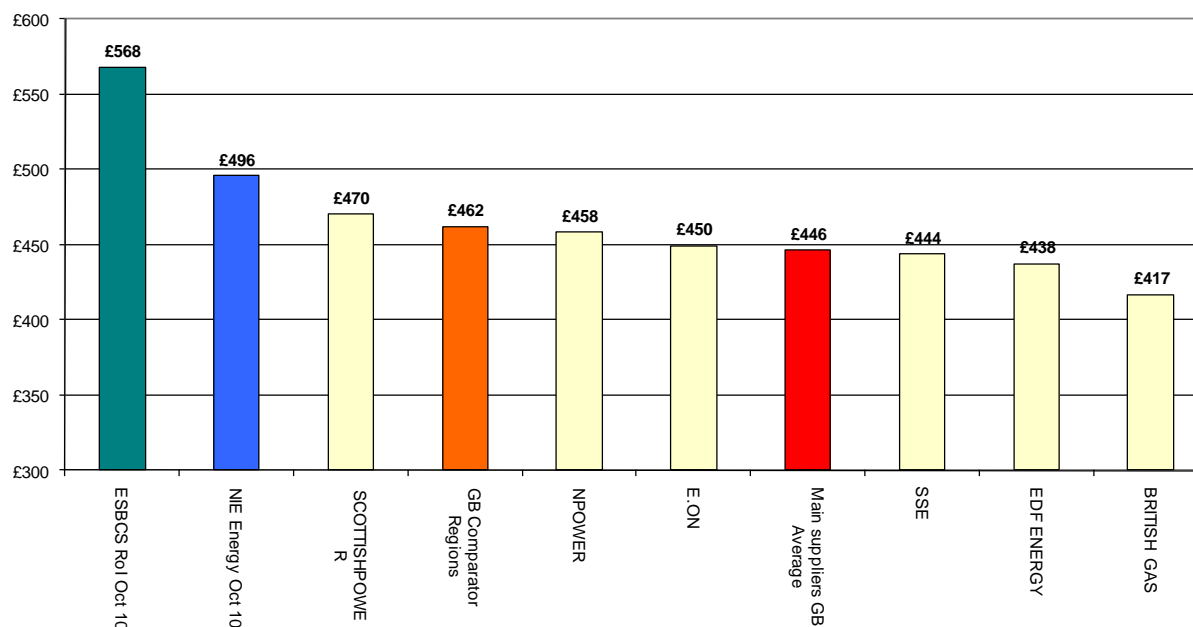


Figure 1: NIEES tariffs per average customer compared to ROI and GB

From figure 1 it can be seen that NIEES tariff is around 11% higher than the main suppliers in GB (average) and 7% higher than GB comparator regions (see footnote 5 of briefing paper). The long-run trend is for electricity prices to be around 10% higher than those in GB. Key disadvantages that have led to higher prices in Northern Ireland are:

- higher energy transport costs;
- economies of scale in GB owing to the size of the market there compared to Northern Ireland;
- the additional cost of long-term legacy generation and associated contracts (not present in GB markets); and
- the different fuel mix in GB. Northern Ireland has a reliance on gas, GB's generation mix is spread between nuclear, gas and coal.

**Q.5 What does the Utility Regulator do to make sure that electricity bills are as low as possible?**

**A.** The Regulator acts on behalf of consumers to ensure prices are as low as they can be, while still making the necessary investment for the future.

The process of setting tariffs for electricity and gas is rigorously scrutinised by the Utility Regulator. The Utility Regulator has carefully reviewed each of the cost elements within NIEES' tariff and is satisfied that no change in tariffs at this time is both prudent and appropriate.

We have taken steps to make sure that the profit of NIEES is constrained and that the companies are run efficiently through our price controls.

**Q.6 How can Airtricity currently offer prices lower than NIEES for domestic customers?**

**A.** The Utility Regulator has worked hard to deliver domestic competition in electricity supply and it is notable that benefits to customers are already being seen in terms of lower prices. Unlike NIEES costs and charges, the Utility Regulator does not directly regulate Airtricity's, so we do not have the same visibility. In general, many factors might lead to lower charges, for example, different wholesale purchasing arrangements, introductory offers or new business models.