

## Power NI Supply Tariff Announcement Q and As

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

**A.** This announcement on Power NI (formerly NIE Energy Supply) 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. The new tariff will commence on 1 October 2011.

The tariff review was subject to a consultative process involving the Utility Regulator, Consumer Council and the Department of Enterprise, Trade and Investment.

### **Q.2 What has caused the increase in bills?**

**A.** Retail prices are rising mainly because international wholesale fuel costs have risen sharply since this time last year. Energy costs are the single largest component of the cost of electricity generation, and make up approximately 60-70% of consumer bills.

The volatility and increase in wholesale fuel costs throughout the year has been driven by worldwide events such as the tsunami/earthquake in Japan and the ongoing instability in the Middle East and North Africa

Electricity price movements from one tariff period to the next are mainly determined by the costs of generation fuels, which in Ireland mainly means gas and coal.

### **Q.3 Does this announcement affect customers who buy their electricity from other suppliers?**

**A.** No. The Utility Regulator only directly regulates the prices of Power NI 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.

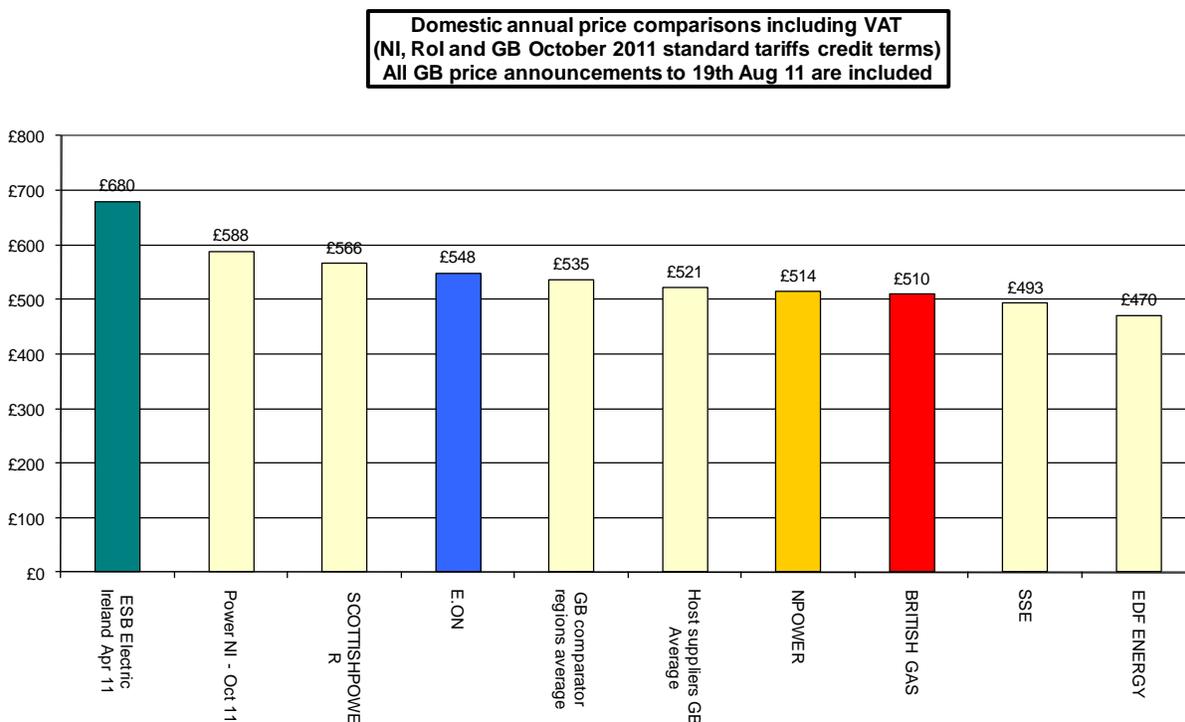
### **Q.4 What are the key elements of my bill?**

**A.** The final electricity bill of a Power NI domestic customer is made up of several components and the percentage mix from one year to the next can change. The key components for 2011-12 are:

- around 60-70%, the largest component is wholesale energy costs. At present, wholesale prices continue to be volatile and have risen significantly in comparison to last year;
- around 20-30% is regulated network tariffs;
- the remaining 10% is Power NI supplier charges and margin and some residual costs, which are regulated by the Utility Regulator.

**Q.5 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 GB and ROI domestic prices**



The long-run trend is for electricity prices to be around 10% higher than those in GB, although that gap is continuing to reduce. Key disadvantages that have led to higher prices in Northern Ireland compared to GB are:

- higher energy transport costs;
- economies of scale in GB owing to the size of the market there compared to Northern Ireland;
- the different fuel mix in GB. Northern Ireland has a reliance on gas, GB's generation mix is spread between nuclear, gas and coal; and
- a dispersed rural population in NI means that electricity network charges are higher.

The October 2011 Power NI domestic tariff compares favourably to the equivalent Rol tariffs.

**Q.6 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 is rigorously scrutinised by the Utility Regulator. We do not let prices go up easily. This is the first electricity price rise for three years. The Utility Regulator has carefully reviewed each of the cost elements within Power NI's tariff and is satisfied that this increase is unavoidable giving increasing wholesale fuel costs.

Following its scrutiny of the cost elements, the Regulator sets a maximum tariff level which Power NI can charge its customers.

As part of the price control for Power NI, we continue to regulate the profit the company is allowed to earn. The margin is currently set at 1.7% of forecast turnover.

**Q.7 Is there competition in the electricity market?**

**A.** Yes. The Utility Regulator has worked hard to deliver domestic competition in electricity supply and it is notable that benefits to consumers are already being seen in terms of lower prices. We expect further entry to the electricity market over the coming months.

**Q.8 If wholesale fuel prices fall, will the tariff be reduced?**

**A.** Yes. The Regulator continually monitors wholesale fuel costs and any significant changes in these costs that could result in a tariff review. If there are significant downward changes to wholesale fuel costs, the Regulator will act to ensure that these are reflected in lower consumer bills.