

## 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 non-domestic regulated 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 2012.

The tariff review is 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 decrease in bills?**

**A.** Retail prices are decreasing mainly because international wholesale fuel costs have fallen when compared to this time last year. Fuel costs are the single largest component of the cost of electricity generation, which makes up approximately 60-70% of consumer bills.

The main drivers of the reduction in these costs relate to a fall in the price of carbon in Europe which has led to more coal generation being utilised in the market and also a fall in gas prices. Coal generation is generally cheaper than gas. This together with the fact that both coal and gas have fallen in price since last year (leading to a decrease in the cost of all types of non renewable generation in comparison to last year) leads to a reduction overall for Power NI's generation related costs.

### **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 consumer interests are protected.

Other suppliers in the market are now likely to review their prices in light of this announcement. Consumers are free to choose their electricity supplier and should be encouraged to explore the choices available to them. Over the last year there has been an increase in consumers switching electricity. In total, from the start of domestic competition in June 2010, there have been around 120,000 switches by domestic consumers.

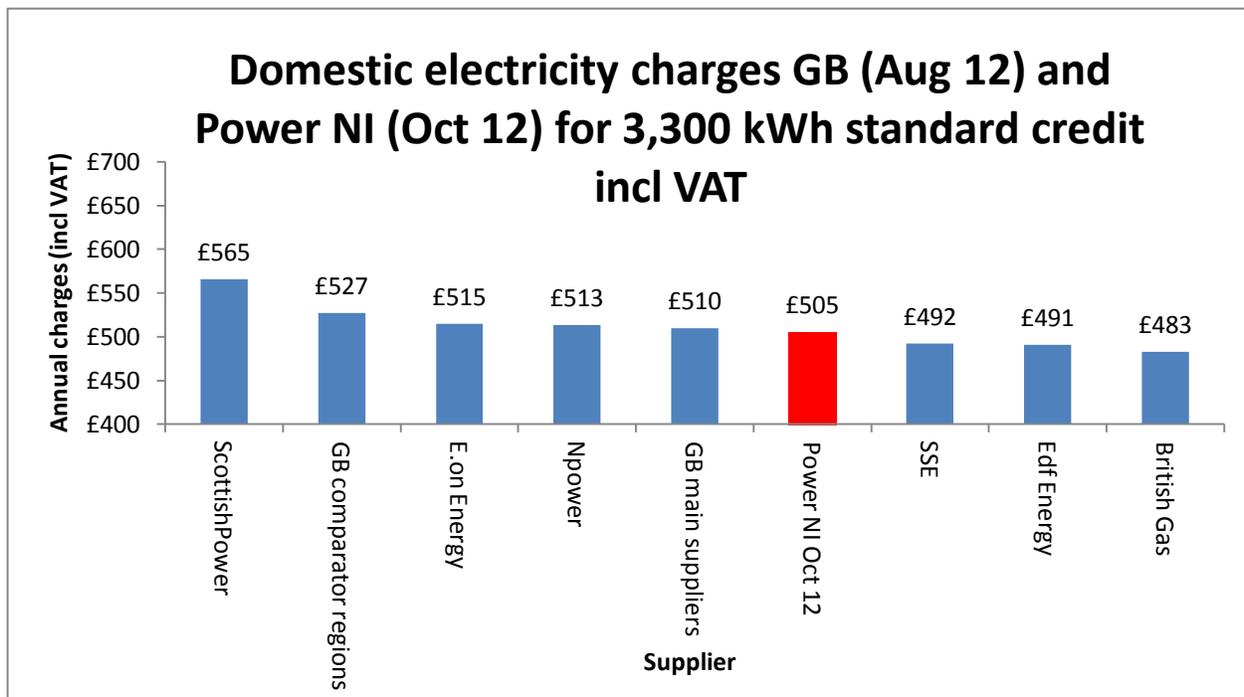
**Q.4 What are the key elements of a bill?**

**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 2012-13 are:

- around 60-70%, the largest component is wholesale energy costs. At present, wholesale prices continue to be volatile and have fallen in comparison to last year;
- around 20-30% is regulated network tariffs; and
- the 10% remaining is Power NI supplier charges e.g. cost of billing and profit 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 Europe (inc ROI)?**

**A. Comparison with GB domestic prices**

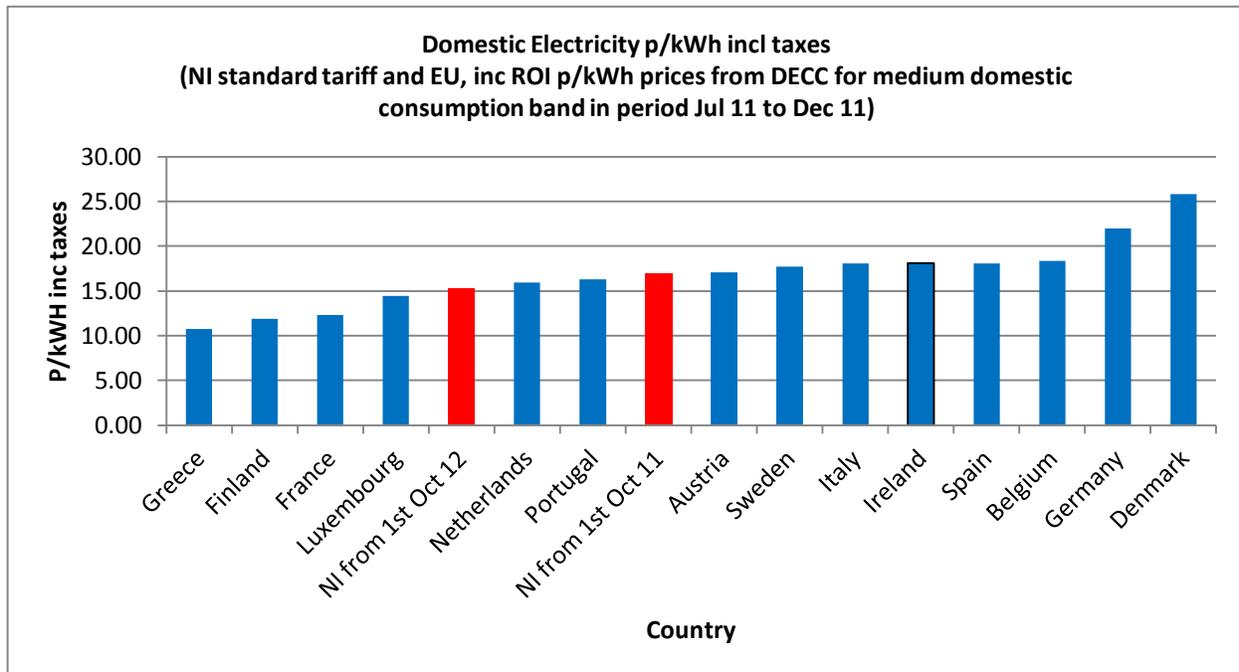


The long-run trend is for electricity prices to be around 10% higher than those in GB. However, this year Northern Ireland prices are around 4% lower than the GB comparator regions.

There could be several reasons which have led to the current situation where Power NI domestic tariff is lower than the GB average (which is contrary to the longer-term trend). These could include:

- differences in the timings of supplier’s wholesale purchases;
- differences in timings of changes to retail tariffs across suppliers and jurisdictions;
- supplier gross margins being less in Northern Ireland as Power NI operate within a regulated price control designed to reduce supplier costs i.e. reduce gross margin; or
- other factors not readily apparent.

## B. Comparison with Europe



The data from the rest of the EU relates to the average for the period June 2011 – December 2011 (so figures for Europe are circa six months out of date). From the graph it can be seen that Northern Ireland October 2011 tariffs (i.e. those most comparable to the European data) are around the middle of the range of other countries shown in the graph. The upcoming Northern Ireland decrease may improve this position, but if this is the case it will only become apparent when more up-to-date EU data becomes available. This will be reported in the coming months in the regular Utility Regulator Quarterly Transparency Reports, published on our website. The graph above shows that following the reduction in unit rates on the 1 October 2012, Northern Ireland regulated prices will be around 15% cheaper than current ROI prices.

**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 ensuring that investors have confidence in the regulatory regime to make the necessary investment for the future.

The process of setting tariffs for electricity is rigorously scrutinised by the Utility Regulator, to ensure that costs included are reasonable. The Utility Regulator has carefully reviewed each of the cost elements within Power NI's tariff.

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%, which is significantly lower than GB where margins of up to 10% can be seen.

**Q.7 If wholesale fuel prices change, will the tariff change?**

**A.** Potentially yes. Similarly to the previous 12 months the Regulator continually monitors wholesale fuel costs and any significant changes in these costs that could result in a tariff review. This could be a further downward or indeed upward change.