



# Conclusion of the Utility Regulator's Review of the Power NI Ltd Maximum Average Price

Effective 1 April 2024



## About the Utility Regulator

The Utility Regulator is the economic regulator for electricity, gas and water in Northern Ireland. We are the only multi-sectoral economic regulator in the UK covering both energy and water.

We are an independent non-ministerial government department and our main duty is to promote and protect the short- and long-term interests of consumers.

Our role is to 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.

We are based at Queens House in Belfast. The Chief Executive and two Executive Directors lead teams in each of the main functional areas in the organisation: CEO Office; Price Controls, Networks and Energy Futures; and Markets and Consumer Protection.



### Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



### Our vision

To ensure value and sustainability in energy and water.



### Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.

## Abstract

Protecting consumers is at the heart of the Utility Regulator's (UR) role and ensuring that domestic customers pay the correct price for electricity from the price regulated supplier Power NI Ltd is a core part of our work.

To this end the UR scrutinises Power NI submissions in relation to price changes and ensures that the maximum average charge per unit supplied is not more than the sum of the input costs allowed in the Power NI price control formula.

This ensures that customers pay no more than the efficient costs of purchasing and supplying the electricity plus an agreed profit margin set by the UR.

## Audience

Consumers and consumer groups; industry; political representatives, stakeholders and statutory bodies.

## Consumer impact

The direct consumer impact of this review will be a change to the regulated electricity tariff. This change will affect domestic customers only. Domestic customers of Power NI will see a change to their tariff rates from 1 April 2024. The tariff will decrease by 6.3%.

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# 1. Approval by the Utility Regulator of the Power NI Ltd Maximum Average Charge per Unit Supplied

## Summary

- 1.1 In January 2024, the Utility Regulator (UR), in consultation with Power NI, Department for Economy (DfE) and the Consumer Council Northern Ireland (CCNI), began a review of the Power NI maximum average tariff for domestic customers. The current maximum average price has been effective since 1 July 2023. Following a decrease in wholesale energy costs, this review was initiated to establish the new maximum average charge to become effective from 1 April 2024.
- 1.2 Since 1 July 2023, the underlying price for customers on the Standard Home Energy tariff has been 30.21 p/kWh (ex VAT). Following review, a decrease of 1.9 p/kWh was determined to reflect falling wholesale costs, resulting in a tariff of 28.31 p/kWh (ex VAT).
- 1.3 Table 1 shows the changes to unit rates (ex VAT) payable by Power NI customers since July 2023.

**Table 1 – Unit rate change (ex VAT)**

Rate (ex VAT)	p/kWh
Existing rate (1 July 2023)	30.21
Required decrease	-1.9
<b>New rate (1 April 2024)</b>	<b>28.31</b>

- 1.4 We scrutinised Power NI's tariff submission to ensure tariffs are kept as low as possible and their submissions reflect only the actual and efficient costs they have incurred. Through our price control, we constrain how much the company is allowed to charge for the services they provide. Through this scrutiny, we ensure that the maximum average charge per unit is not more than the sum of the input costs allowed in the Power NI price control formula.
- 1.5 Our tariff review process is carried out in collaboration with the Department for the Economy and Consumer Council for Northern Ireland.
- 1.6 The tariff will be kept under ongoing review with any potential savings passed on to consumers as quickly as possible. A tariff review would be initiated if changes in actual input costs (for example wholesale or network costs) created a significant difference between Power NI actual and forecast

costs and revenues. The tariff would then need to be adjusted upwards or downwards to align costs and revenues.

## **Background**

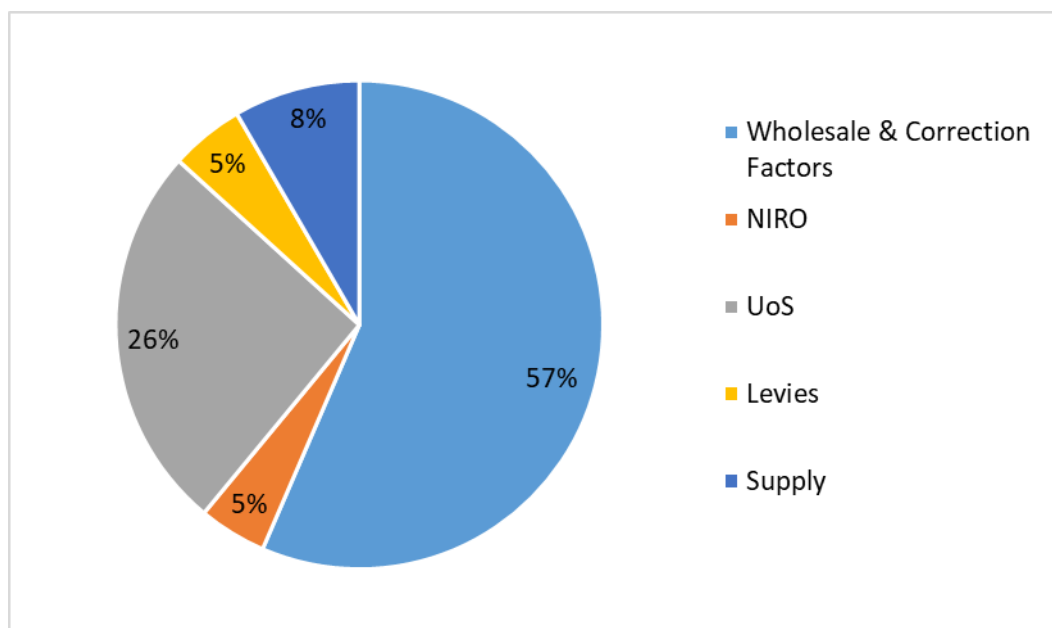
- 1.7 The domestic electricity supply market has been fully open to competition since 1 November 2007, and since June 2010 a number of suppliers have entered the domestic market. There are now five active suppliers in the domestic market (including Power NI). However, whilst facing competition from other suppliers, Power NI remains dominant in this sector of the market.
- 1.8 Under the terms of Power NI's licence to supply electricity, we ensure the maximum amount that Power NI can charge for electricity to domestic customers reflects the actual cost of supplying electricity to homes and businesses and is not more than the price control allows.
- 1.9 The details of the operation of Power NI's supply price control are set out in its Licence. At present, Power NI's maximum allowed unit price of electricity ( $MS_t$ ) for customers is made up of a number of components:

$$MS_t = G_t + U_t + S_t + KS_t + (J_t - D_t) + E_t$$

## 2. Elements of the Maximum Average Charge

- 2.1 We set a price control that determines allowances for Power NI's operating costs and profit margin. Any other operating costs that are passed through the tariff (which are not allowed for in the price control, e.g., licence fees) must be approved by the UR. The aggregate of the price control allowances and pass through costs are termed the supplier charge (see Figure 1 below).
- 2.2 Power NI retail tariffs (derived from the maximum average charge) for this upcoming year are made up of a number of components (including the supplier charge discussed above):

**Figure 1 - Makeup of the maximum average tariff – 1 April 2024**



These elements are further discussed in the sections below.

### Levies and Use of System Charges

- 2.3 Several of the final tariff components are common across all suppliers and the final customer will usually pay these regardless of who their supplier is. These components are all subject to regulatory review and approval:
- Levies – System Support Services (SSS), Public Service Obligation (PSO); and
  - Use of System charges (UoS) – these are the costs of transmission and distribution of electricity through the NIE Ltd network to homes and business.

- 2.4 These costs are regulated because they are levied to recover the costs of those parts of the electricity system which are natural monopolies. Independent suppliers are free to enter the market and purchase power. They will usually add on the charges outlined above to their energy costs before setting the final price to sell to customers. This is because they are required to pay these charges in order to safely and securely transport the power to the customer.
- 2.5 For the purpose of setting an April 2024 tariff, the published Levy and UoS rates have been used where available and, where they haven't yet been published, forecast estimates for these network components have been used to derive the Power NI revenue requirement for them over the next 24 months. Generally speaking, an increase for RPI has been assumed for these elements in the absence of having the actual published tariff rates that will apply from April 2024 onwards. It is important to note that Power NI's tariffs may be adjusted at a future tariff review depending on the actual out-turn costs, the forecasts used at this time have been used for initial tariff setting purposes.

### **Wholesale Energy Cost and Over / Under recovery**

- 2.6 The all-island Single Electricity Market (SEM) is both a competitive and regulated wholesale energy market on the island of Ireland. It is where electricity generators and suppliers trade the power used by homes and businesses across the island of Ireland. The SEM comprises a number of markets each spanning different trading timeframes which allow increasing levels of competition as well ensuring the supply of power matches demand. These timeframes include:
- Day Ahead Market (the largest market by volume and value);
  - Intra Day Market (running up to an hour before the delivery of power);
  - Balancing Market (difference between the supplier's demand and what they have already purchased); and
  - Forwards Market (provides an opportunity for hedging).
- 2.7 Hedges effectively mean that the supplier is purchasing power on a forward basis, at a fixed price, based on forecast market prices (plus a premium). We approve the Power NI hedging methodology, and we also approve the forecast of the total of Power NI wholesale costs for their estimated demand for the tariff period. Because the wholesale energy component of final tariffs is both large and volatile, over or under recoveries of revenues in any tariff period are generally caused by wholesale energy costs out-turning lower or higher, than was forecast at the time of tariff setting. Over recoveries that



occur in any given tariff period are handed back to customers in the subsequent tariff period. Under recoveries are added to the total cost forecast of the subsequent tariff period.

2.8 Wholesale costs also include:

- Capacity Costs – these are the costs suppliers pay to help ensure there is sufficient generation available within the system in order to meet peak demand. Generators who are successful in a competitive capacity auction, receive a regular capacity payment. This payment assists with funding their generation capacity however capacity providers are also required to refund consumers for any energy prices which rise above a set strike price for each capacity auction.
- Imperfection charges - these charges are mainly the costs associated with constraints on the all-island transmission network. Constraints are caused by network bottlenecks (such as the North-South interconnector, which is one of the most significant). These constraints result in the system operators (SONI and EirGrid) taking action to ‘balance’ the system in order to ensure stability of the electricity system. These actions are a normal and necessary part of electricity markets in other jurisdictions but are particularly important in the SEM, which is a small and highly constrained electricity system that has a high level of renewable generation.

## **Supplier charge**

2.9 The supplier charge is made up of the efficient costs of Power NI’s supply business. These costs are assessed and collected through the application of the Power NI Supply Price Control and any other costs approved on a pass-through basis (after thorough regulatory scrutiny). The allowance set in the price control is for Power NI operating costs (e.g. salaries, IT systems, rent and rates, legal fees, bad debt costs, keypad meter transaction costs and a target profit margin of 2.2% of forecast turnover). Other costs which are unknown but treated as “pass-through” as they are unavoidable (e.g., licence fees, certain IT project costs), are allowed and these also go into the overall supplier charge.

## **NIRO costs**

2.10 The Northern Ireland Renewables Obligation (NIRO), is an environmental scheme designed to encourage the development of renewable electricity in Northern Ireland. Although now closed to new renewable electricity generation, consumers continue to pay for the cost of projects accredited through the scheme. Ofgem audits the cost of the NIRO on behalf of the UR.

## **Why are Power NI's underlying tariffs decreasing?**

- 2.11 The maximum average charge as calculated by the tariff formula will decrease by c.6.3 % (as shown by the p/kWh required decrease in section 1.3).

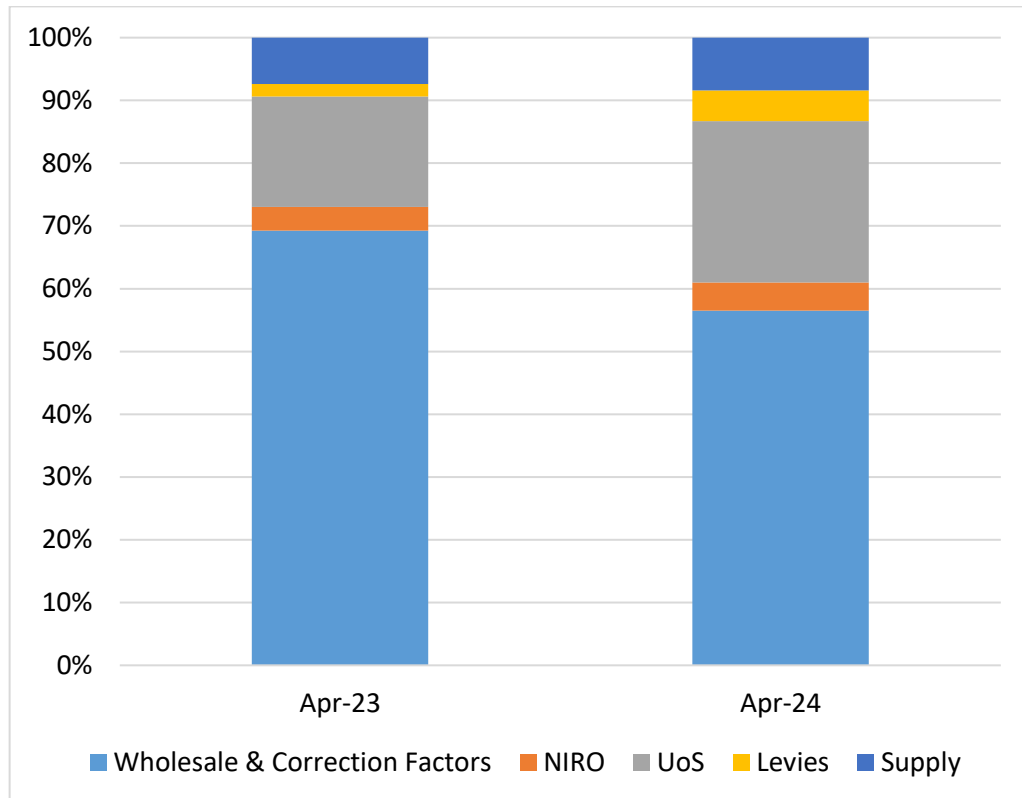
### **Wholesale Energy Cost and Power NI Over/Under recovery element**

- 2.12 The falling wholesale cost of electricity has been a key driver of this tariff reduction. These lower electricity wholesale prices have been driven primarily by a fall in the cost of wholesale gas which is used to generate electricity.
- 2.13 Since the current tariff was set in July 2023, there has been a downward trend, and this has resulted in the forecast price of electricity being lower than the wholesale cost which was forecast at the time of the last tariff setting.
- 2.14 As noted in section 2.7 above, over recoveries that occur in any given tariff period are handed back to customers in the subsequent tariff period. Under recoveries are added to the total cost forecast of the subsequent tariff period.
- 2.15 In addition to the above, there have been notable increases in network costs since the time the tariff was last set in July 2023. This increase in costs is factored into this review and partially offsets the decreases which have been seen in the wholesale element of the tariff.

### **Breakdown of Tariff**

- 2.16 The graph shown in Figure 2 on the next page compares the breakdown of the April 2024 tariff with the breakdown of the previous tariff set at July 2023. The price of wholesale energy remains the most significant element of the final consumer bill.

**Figure 2 – Breakdown of April 2024 tariff costs compared with a breakdown of the previous tariff costs.**



2.17 The average annual bill<sup>1</sup> from 1 April 2024 will be £951 inclusive of VAT. This compares with a previous annual bill (based on the tariff set at July 2023) of £1,015. On this basis, a typical customer will pay £64 (6.3%) less than the July 2023 tariff.

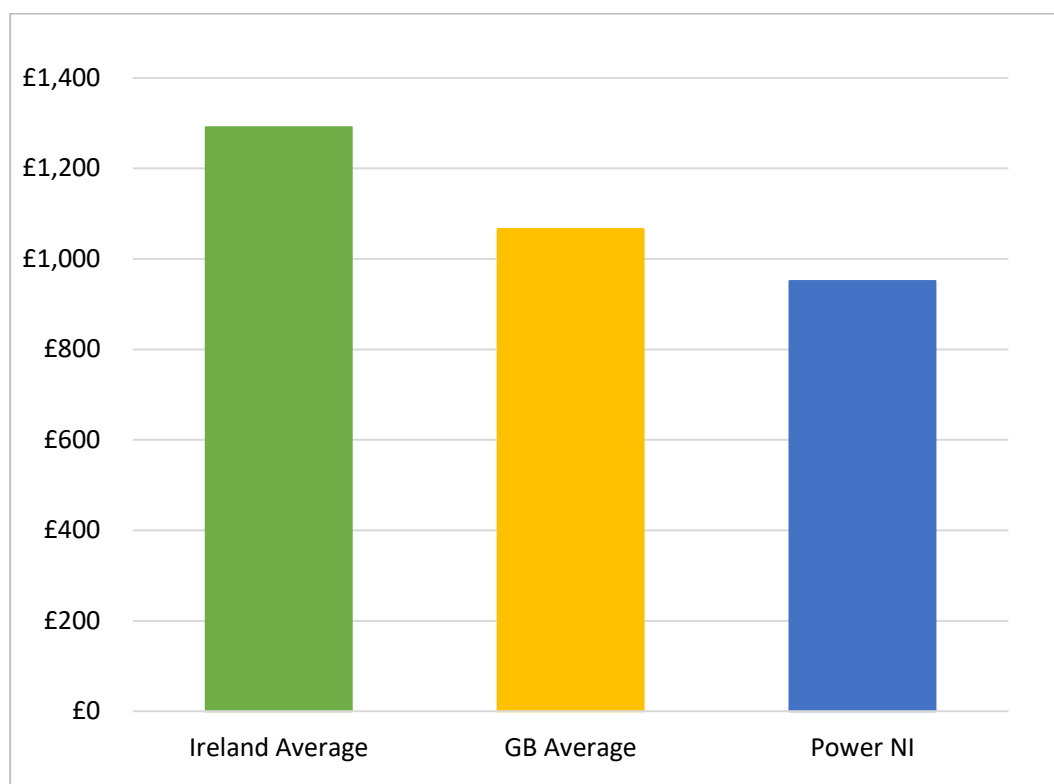
### Comparison with GB

2.18 Figure 3 on the next page shows the average annual bill for a Power NI domestic credit customer compared to the Ireland average annual bill and the GB Electricity Price Cap. This comparison is based on the latest available information.

2.19 Figure 3 illustrates that the Power NI tariff for an average domestic credit customer will be c.11% cheaper than the GB Electricity Price Cap which equates to c.£115. The Power NI tariff will be c.26% cheaper than the current annual bill in Ireland which equates to a difference of c.£340.

<sup>1</sup> The average annual bill amounts have been calculated based on the standard domestic tariff set at each tariff review (including VAT) and are based on an average annual consumption of 3,200 kWh as has been used in previous years.

**Figure 3 - Comparison of average annual bill in GB and Ireland with Power NI (based on estimated usage 3,200 kWh p/a including VAT as of 1 April 2024.**



*NB 3,200 kWh represents typical average consumption which has been used in previous years for tariff comparison.*

## **Outcome**

- 2.20 We have reviewed the Maximum Average Price submission provided by Power NI and are satisfied that the calculated price is appropriate. We have agreed that the new standard domestic tariff of 28.31 p/kWh (ex VAT) shall take effect from 1 April 2024.