

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

Effective 1 December 2024



About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we 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 through financial and annual reporting obligations.

We are based at Queens House in the centre of 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; Markets; Consumer Protection and Enforcement. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



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 December 2024. The tariff will increase by c. 4%.

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

Summary and key messages

- 1.1 The current Power NI maximum average tariff for domestic customers has been effective since 1 April 2024 with an underlying price for customers on the Standard Home Energy tariff being 28.31 p/kWh (ex VAT).
- 1.2 Following an increase in a number of costs which need to be recovered from suppliers (and passed on to consumers) to operate the electricity grid, the Utility Regulator (UR), in consultation with Power NI, Department for the Economy (DfE) and the Consumer Council for Northern Ireland (CCNI), commenced a tariff review, with any changes to take effect from 1 December 2024.
- 1.3 We scrutinised Power NI’s tariff submission to ensure that it reflects only the actual and efficient costs that the company has incurred so that tariffs are kept as low as possible. On this occasion, an increase of 1.13 p/kWh was determined, resulting in a revised tariff of 29.44 p/kWh (ex VAT).
- 1.4 The main reason for this tariff change is due to an increase in costs related to the wholesale energy market, and the operation of the electricity network. As we continue to strive to meet government climate change targets, and to ensure security of supply, there has been a need to invest in grid infrastructure to facilitate renewable energy sources. This will bring longer-term benefit for the region, its businesses and consumers. In addition, we have seen significant increases in wholesale gas costs globally as a result of the ongoing conflicts in the Middle East. Wholesale gas prices affect the cost of electricity because 45% of electricity is generated with gas-fired power stations.
- 1.5 Table 1 summarises the change to unit rates (ex VAT) payable by Power NI customers:

Table 1 – Unit rate change (ex VAT)

Rate	p/kWh
Existing rate (1 April 2024)	28.31
Required increase	1.13
New rate (1 December 2024)	29.44

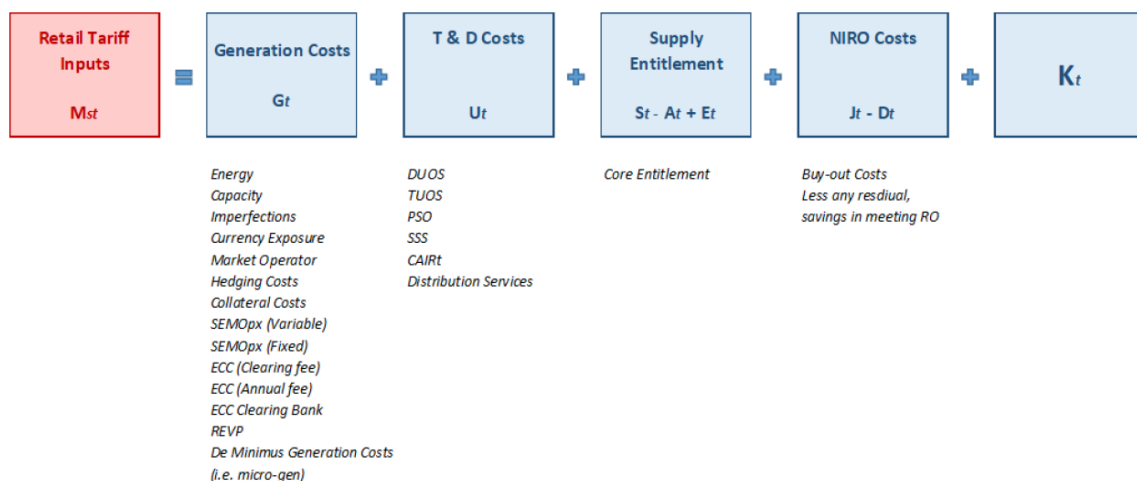
- 1.6 The average annual bill from 1 December 2024 will be £989 inclusive of VAT. This compares with a previous annual bill (based on the tariff set at April 2024) of £951. On this basis, a typical customer will pay £38 (4.0%) more than the April 2024 tariff.
- 1.7 The revised Power NI tariff for an average domestic credit customer remains lower than December 2023, and cheaper than both the GB Electricity Price Cap and the current average annual bill in Ireland.
- 1.8 The tariff will be kept under ongoing review with any potential savings passed on to consumers as quickly as possible.

Background

- 1.9 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.
- 1.10 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.
- 1.11 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:

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

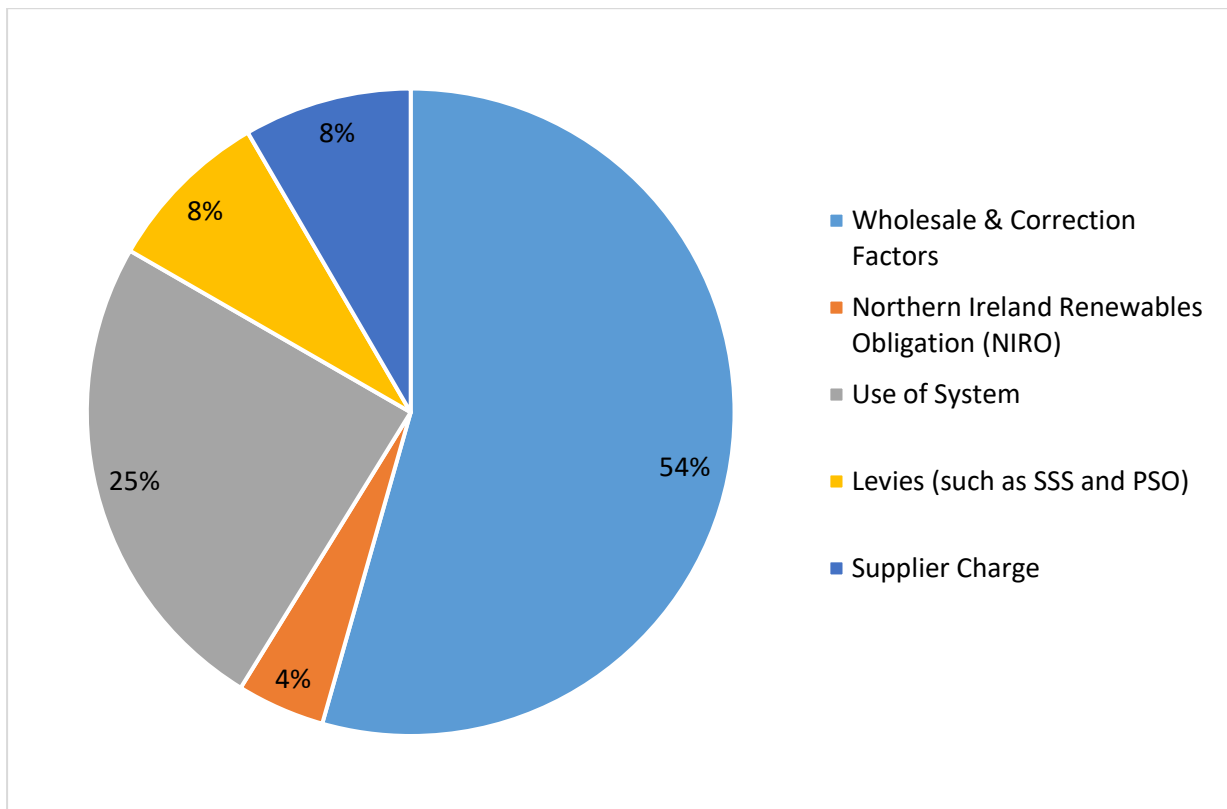
Power NI’s Key Tariff Inputs



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, for example, 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:

Figure 1 - Makeup of the maximum average tariff – 1 December 2024



These elements are further discussed in the sections below.

Wholesale Energy Cost and Over / Under recovery

- 2.3 Wholesale energy costs make up the majority of a customer bill, with 54% of a typical customer bill being attributed to this element from 1 December 2024. The UR has no control over wholesale energy market costs, but we work with industry to try to mitigate their effects. This tariff review has indicated that there has been a rise in the cost of wholesale gas which is used to generate electricity, primarily due to the effects of global and geopolitical events.

2.4 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).

2.5 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. These over- or under-recoveries are referred to as a 'correction factor'.

2.6 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.

NIRO costs

2.7 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. This element of a customer bill is relatively small, with 4% of the total attributed to NIRO costs from 1 December 2024. Ofgem audits the cost of the NIRO on behalf of the UR.

Levies and Use of System Charges

2.8 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. From 1 December 2024, these components will make up around 33% of a typical customer bill and are all subject to regulatory review and approval:

- Levies – These include System Support Services (SSS) which are charged by SONI as transmission system operator, and a Public Service Obligation (PSO) which is charged by the Irish Government to fund schemes to support the construction and operation of sources of renewable electricity; and
- Use of System (UoS) charges – these are the costs of transmission and distribution of electricity through the NIE Networks Ltd network to homes and businesses.

2.9 A change in the SSS levy is the key driver for an increase in the Power NI tariff from 1 December 2024. This is because costs associated with network investment in the transition to net zero have had to be incorporated for recovery.

2.10 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.

- 2.11 For the purpose of setting a December 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 December 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.

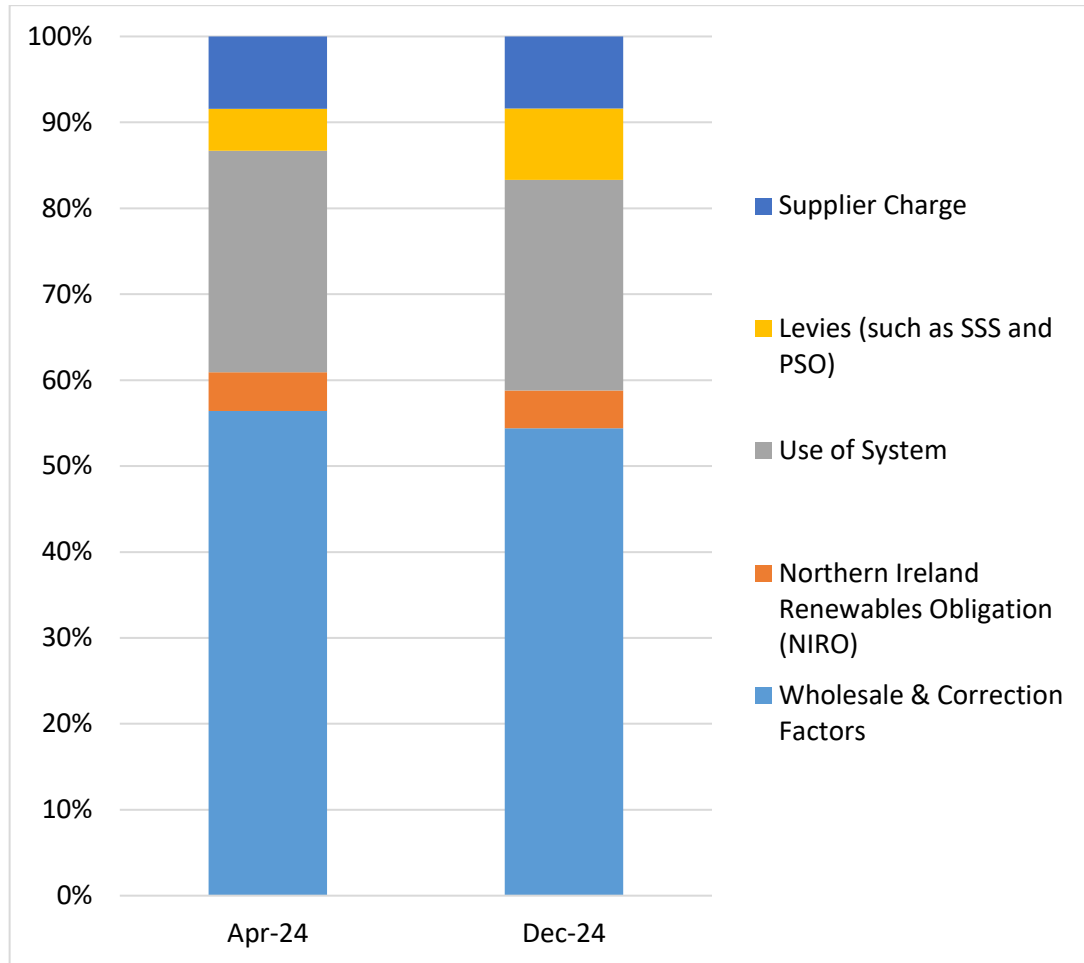
Supplier charge

- 2.12 The supplier charge is made up of the efficient costs of Power NI's supply business. From 1 December 2024, the supplier charge will make up 8% of a typical customer bill. 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 (for example, 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 (for example, licence fees, certain IT project costs), are allowed and these also feed into the overall supplier charge.

Breakdown of Tariff

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

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



2.14 As mentioned in section 1.6, the average annual bill¹ from 1 December 2024 will be £989 inclusive of VAT. This compares with a previous annual bill (based on the tariff set at April 2024) of £951. On this basis, a typical customer will pay £38 (4.0%) more than the April 2024 tariff.

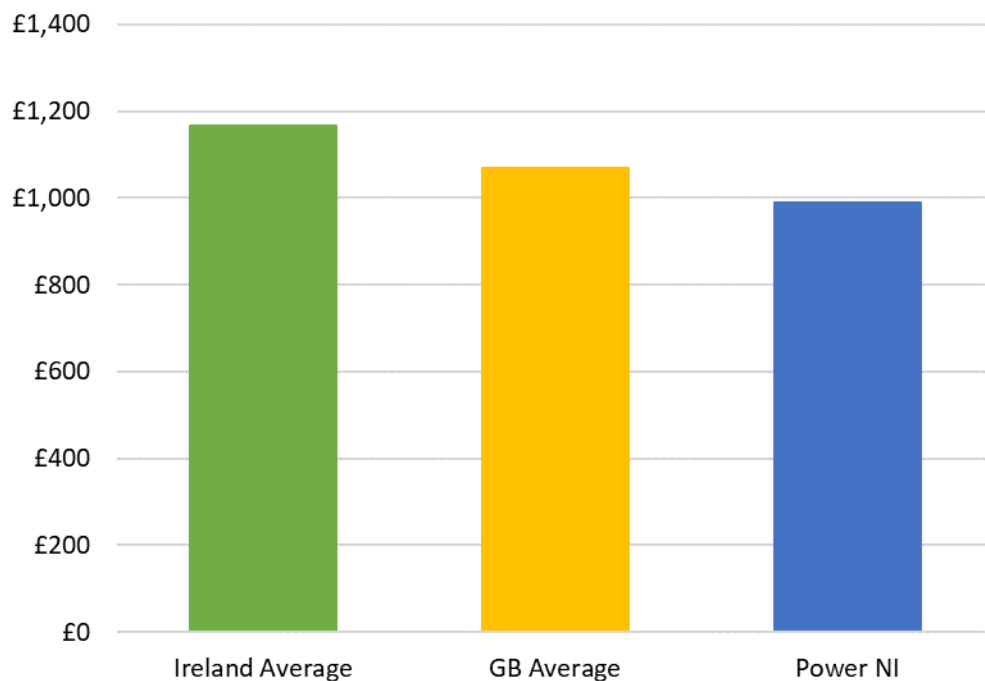
Comparison with GB

2.15 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.

¹ 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.

2.16 Figure 3 illustrates that the Power NI tariff for an average domestic credit customer will be c.8% cheaper than the GB Electricity Price Cap which equates to c.£81. The Power NI tariff will be c.15% cheaper than the current annual bill in Ireland which equates to a difference of c.£178.

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 December 2024).



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

Outcome

2.17 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 29.44 p/kWh (ex VAT) shall take effect from 1 December 2024.