Phoenix Supply Limited Price Announcement Q and As

Q.1 Why is Phoenix Supply Limited announcing an increase in gas bills now?

A. The Phoenix Supply tariff review runs for a 12 month period from 1 April each year. On 14th March 2011, the Utility Regulator announced that it was extending the time for completing the regulated gas tariff review relating to Phoenix Supply Limited by one month. This announcement was made as a result of the continued volatility in the international wholesale energy markets, and the need to gather further information to inform tariff decisions. This new tariff will therefore commence on 1 May 2011.

Phoenix's tariff review is a function of the Utility Regulator's price control that was subject to a public consultation in 2008 and determined the basis for setting the constituents of the tariff.

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 increase in bills?

A. Retail prices are rising chiefly because international wholesale gas costs have risen sharply in recent months. The wholesale gas price currently accounts for approximately 55% of the total cost of the domestic price of gas*.* Prices for the forthcoming winter are 77% higher than the previous winter.

The sharp increase in wholesale gas costs recently has been driven by factors such as the tsunami/earthquake in Japan and the ongoing instability in the Middle East and North Africa

The remaining components of the tariff are transmission tariff, distribution tariff, supply operating expenditure and the allowed profit margin which is fixed at 1.5%.

Q.3 Do we pay more for our gas in Northern Ireland than other parts of the UK or the Republic of Ireland? If so, why?

Prices in Northern Ireland tend to be higher than in GB and there are several reasons for this. Northern Ireland's gas distribution and transmission network was newly developed from 1996, which has resulted in higher network charges than in GB to pay for the new infrastructure. In addition, gas is transported to Northern Ireland across the interconnector from Scotland.

Despite this, the PSL tariff, for the last 18 months, has been lower than the GB average. This has been caused by GB firms demanding greater margins (in the region of 8%[1] compared to PSL margin of 1.5%). Bord Gais announced a freeze in its prices on 5th January but noted that price increases for customers are inevitable at the CER price review in October - should the trend on international gas markets continue. It is expected that the GB gas suppliers will announce a price increase shortly to take account of the most recent rises in the wholesale gas market.

Q.4 What does the Utility Regulator do to make sure that gas bills are as low as possible?

A. The Utility Regulator acts on behalf of consumers to ensure prices are as low as they can be and that prices reflect the costs of providing the gas supply, whilst ensuring the supplier can make the necessary investment for the future.

The Utility Regulator has carefully reviewed each of the cost elements within the tariff and is satisfied that the increase is appropriate given the increasing cost of gas.

Following its scrutiny of the cost elements, the Regulator sets a maximum tariff level which Phoenix Supply Ltd can charge its customers. The 39.1% increase that will come into effect on 1 May 2011 will bring prices back to levels seen in May 2008.

The Utility Regulator also imposes regulatory limits through its price control to keep costs down. This includes limits on the gas company's profit margin. The allowed profit margin for Phoenix Supply Ltd, also subject to the regulatory price control, is 1.5% which is significantly lower than comparable suppliers in GB. (GB margins would typically average over time in the region of 8%). Any profit is not guaranteed either, since it relies on the company running an efficient business.

Q.5 Is there competition in the gas market?

A. Yes. The Utility Regulator has been pro-active in supporting the development of competition in the gas market, and has taken steps to ensure that customers can make a choice (through switching).

The domestic gas market in the Greater Belfast area has been open to competition since January 1 2007, with a new supplier entering the market in November 2010. The Utility Regulator continues to work with the energy industry to encourage competition and remove barriers to entry into the gas market.

[1] Figure calculated from the March 2011 Ofgem Electricity and Gas Market report which can be found at http://www.ofgem.gov.uk/Markets/RetMkts/rmr/Documents1/Supply_Market_Report_March2011.pdf

Q.6 If wholesale gas prices fall, will the tariff be reduced?

A. Yes. The Regulator continually monitors the costs of wholesale gas and any changes in these costs that could result in a 5% change in the tariff triggers a price review as set out in the PSL price control. If there are significant downward changes to wholesale gas costs, the Regulator will act to ensure that these are reflected in lower consumer bills.