Regulated Entitlement Values

2020/21 Tariff Year

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 leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

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

Electricity suppliers in Northern Ireland pay a number of regulated charges which they may in turn recover from their consumers. This information paper details each regulated charge that makes up a portion of electricity bills for both business and domestic consumers. The purpose of this information note is to communicate the changes to the regulated entitlement values for each charge which will take effect from 1 October 2020.

Audience

Electricity suppliers, customers, businesses and consumer groups.

Consumer impact

This paper provides information on each element of the regulated entitlements which make-up a portion of the cost of electricity paid by business and domestic consumers. The reasons for the changes are discussed within the paper.

Contents

1. Introduction

1.1 Electricity suppliers in Northern Ireland pay a number of regulated charges, known as regulated entitlement values, which they may in turn recover from their customers. The Utility Regulator approves network charges and public service obligation (PSO) charges whereas the Single Electricity Market Committee (SEMC) approves SEM charges. In this information note we refer to the regulated entitlement values for each charge which can be recovered over the next tariff year (1 October 2020 - 30 September 2021).

1.2 Network and PSO charges are collected by: NIE Networks (Northern Ireland Electricity Networks); and by SONI (System Operator Northern Ireland), whereas the SEM charges are collected by SEMO (Single Electricity Market Operator).

1.3 The purpose of this paper is to communicate the changes to the regulated entitlement values for each charge which will take effect from 1 October 2020, together with explanations for these changes.

1.4 NIE Networks, SONI and the SEMO set tariffs to collect over the forthcoming tariff year, based on cost/revenue allocation assumptions and consumption forecasts. These costs are regulated through price controls to ensure the costs are necessary and efficiently incurred to help protect consumers. The relevant tariffs are published on the NIE Networks[1], SONI[2] and SEM website[3] which we have referenced in the footnotes below.

1.5 This paper has been authored and published before outturn costs have been collected or verified for the tariff year 2019/20 (1 October 2019 – 30 September 2020), therefore, the comparisons made below are between two forecasted revenue entitlements. For the sake of simplicity and transparency we have not updated the 2019/20 forecast from last year[4], however, we have accounted for the latest available information to us, in our forecasts for 2020/21.

1.6 In addition, we would add that electricity bills also include other costs, such as: wholesale energy costs; the climate change levy (for businesses only); the carbon reduction commitment; supplier charges; and VAT. The most significant of these other costs is the energy costs, and these will vary greatly between suppliers and customers, largely depending on the timing and extent of hedging contracts.

[1] https://www.nienetworks.co.uk/about-us/regulation/network-charges
[2] http://www.soni.ltd.uk/library/
[3] https://www.semcommittee.com/publications
[4] https://www.uregni.gov.uk/sites/uregni/files/media-files/Regulated%20Entitlement%20Values%202019%202020%20-%20Information%20Note.pdf

2. Network and system support charges

Transmission & Distribution (TUoS/DUoS) charges

2.1 The use of system charges are derived from the price controls put in place for NIE Networks, with the RP6 price control being the most relevant for this tariff year. The tariffs reflect our best estimate for the 2020/21 tariff year by utilising the approach that the entitlement for any tariff year (October - September) should be 50% of the entitlement for the two financial years (April - March) which it spans.

TUoS

2.2 TUoS charges have decreased by £1.7 million from the 2019/20 charge of £45.3 million to £43.6 million.

2.3 K factor movements include an over recovery of £0.9 million, a change from an under recovery of £1.5 million within tariffs for the 2019/20 tariff year. Excluding K, the underlying transmission revenue entitlement is £44.5 million for 2020/21.

2.4 The net effect of these factors is that the TUoS revenue entitlement decreased by 3.7% for 2020/21.

2.5 NIE Networks pass on all TUoS charges to SONI. Revenue is then recovered via suppliers (STUoS) and generators (GTUoS) on the basis of a 75:25 split respectively.

2.6 STUoS has increased from the 2019/20 revenue requirement of £34.1 million to £34.3 million. This represents a nominal rise of 0.5% for 2020/21. The £34.3 million revenue is calculated based on 75% of overall TUoS plus a K-factor of c. £1.6 million.

DUoS

2.7 DUoS charges have increased by £4.7 million from the 2019/20 charge of £214.4 million to £219.1 million.

2.8 The ongoing COVID 19 pandemic has had a substantial financial impact on NIE networks with the entitlement and demand forecasts for 2020/21 including substantial COVID-19 impacts.

2.9 The change in DUoS prices is attributed to the variation in forecast assumptions and the change in distribution entitlement for 2020/21 compared to 2019/20 are set out below:

a) The most significant variable is the forecast reduction in sales units which have reduced by 6.8% from 7,651 (GWh) units forecast in 19/20 to 7,129 (GWh) units forecast in 20/21.

b) The distribution entitlement for 2020/21 tariffs is £4.7 million (2.2%) higher than the distribution entitlement used to develop the 2019/20 DUoS prices (£219.1 million versus £214.4 million). This increase is a result of (i) a £5.7 million increase in distribution entitlement (excluding k factor) and (ii) a £1.0 million reduction in the k factor.

2.10 Excluding K, the underlying distribution revenue entitlement is £216.6 million for 2020/21.

System Support Services (SSS) charges

2.11 These regulated charges cover the cost of SONI and the ancillary services required to operate the transmission system safely and reliably. Revenue is apportioned across each kW of electricity consumed.

2.12 SSS revenue has reduced (-4.1%) from the 2019/20 value of £55.9 million to £53.6 million in 2020/21. There are a number of reasons for this change.

2.13 The largest impact is due to a substantial K-factor over-recovery (-£19.1 million) for 2018/19 being handed back to customers in 2020/21. The over-recovery occurred due to forecast Local Reserve Service Agreement (LRSA) costs not materialising.

2.14 The K-factor impact is somewhat offset by a £10.9 million increase in the estimated costs of ancillary services (totalling £47.8 million). This figure includes a 10% (£4.3 million) contingency to account for any further cost or demand impacts resulting from the COVID pandemic.

2.15 Delays to the price control have also meant that the 2019/20 SONI regulated allowance of £16.0 million has been rolled forward to 2020/21. This will be updated and captured in future K-factor adjustments when the price control allowances are agreed.

2.16 It is also worth noting that the SSS charge (in p/kWh) has actually increased despite the fall in regulated entitlement. Whilst revenue has fallen by -4.1%, SSS tariffs have increased by 4.2% from 0.746 p/kWh to 0.777 p/kWh. This is due to the fact that SONI demand forecasts have fallen by -8.0% since the previous year forecast.

Collection Agency Income Requirement (CAIR)

2.17 Moyle's transmission licence permits them to raise revenues from sales of capacity on the Moyle interconnector and to recover the balance of its revenue requirements from payments received from SONI under the Collection Agency Agreement.

2.18 The Collection Agency Income Requirement ($CAIRt$) which SONI collect from suppliers and pay to Moyle Interconnector Limited is apportioned across the predicted units transmitted.

2.19 For 2020/21 Moyle has agreed to pay an amount to SONI based on the CAIRt arrangements, which will effectively be returned to NI customers through its distribution account. This is due to surplus congestion income received in the previous year.

2.20 Moyle has advised SONI that up to £3.8 million should be returned to customers in 2020/21. At Moyle's request, SONI has set the tariff (-0.050 p/kWh) such that £3.45 million will be returned to customers if demand equals SONI forecast of 6,900 GWh. The total of £3.8 million will be returned in the event of demand returning to pre-COVID levels.

Overall Network and system support charges

2.21 Table 1 below shows that the maximum amount recoverable for network and system support costs charged to suppliers between 2019/20 and 2020/21. Network and system support charges are estimated to be 26% of the final electricity bill.

2.22 The precise impact on individual customers will depend on various factors including: the consumption profile; consumption quantity; and historical consumption. Customers should refer to company tariff tables. Links have been provided in section 1 of this paper.

Entitlement	**2019/20**	**2020/21**	**Nominal Change**
	£m	**£m**	**%**
Supplier Transmission charges (STUoS)	34.1	34.3	0.5
Distribution charges (DUoS)	214.4	219.1	2.2
Support charges (SSS)	55.9	53.6	-4.1
CAIR	0	-3.5	n/a
Total	**304.4**	**303.6**	**-0.3**

Table 1 : Network Charges

3. Public Service Obligation (PSO) charge

Landbank

3.1 NIE Land Bank business was established to protect the land surrounding existing power stations for future electricity generation development. The Land Bank sites were vested and the NIE Land Bank business currently manages these sites in accordance with Condition 23 of NIE Network's Licence and directions issued by the Utility Regulator.

3.2 Landbank costs benefitted from the sale proceeds of land in previous years. There has been no such benefit this year and this has resulted in a return to a small positive revenue requirement. Landbank costs include ongoing works at Belfast West and Kilroot.

Legacy generation costs

3.3 The Power Procurement Business (PPB) has power purchase agreements with the power station owners in Northern Ireland. These contracts were put in place with privatisation of the industry back in 1992. PPB purchase power under the terms of these contracts and then sells this power in the SEM. Any profit or loss forms part of the levy on all customers in Northern Ireland via the PSO.

3.4 The PPB and the associated generation contracts are forecast to save customers £4.9 million in the 2020/21[5] tariff year. This compares to a net saving of £10.1 million forecast for the 2019/20 tariff year.

Sustainable Energy Programme (NISEP) costs

3.5 A levy is imposed on all demand to fund the Northern Ireland Sustainable Energy Programme (NISEP). The objective of this programme is to promote energy efficiency with particular regard to vulnerable electricity customers. Costs for 2020/21 have been updated to reflect the latest forecast expenditure and have increased by £0.9m to £9.3m from £8.5m in 2019/20.

K factor

3.6 If the amount of revenue recovered in any one year exceeds or falls short of the amount allowed, the correction factor operates in the following year to give back any surplus with interest, or to recover any deficit with interest, as

[5] Please note that, similar to DUoS and TUoS charges, we have changed our approach to calculating the entitlement for the tariff year, such that, the entitlement for any tariff year (October - September) is 50% of the entitlement for the two financial years (April - March) which it spans.

appropriate.

3.7 K factor reflects an over recovery for the 2020/21 year due mainly to differences between forecast and actual legacy generation income.

Overall PSO charges

3.8 To summarise: Table 2 below shows that the maximum amount recoverable for PSO charges will decrease from a £10.2m rebate to a rebate of £5.0m for 2020/21.

	2019/20 £m	**2020/21 £m**	**Change £m**
Landbank	0.1	0.2	0.1
Legacy generation	-10.1	-4.9	5.2
NISEP	8.5	9.3	0.9
K factor	-8.7	-9.6	-1.0
Total	**-10.2**	**-5.0**	**5.1**

Table 2 : PSO charge

4. Charges regulated by the SEM Committee

4.1 The Single Electricity Market (SEM) is the wholesale electricity market for the island of Ireland and is regulated by the SEM Committee. The SEM consists of a number of electricity trading markets and is administered by SEMOpx (day-ahead and intraday markets) and SEMO (balancing market).

4.2 New market arrangements for the SEM were introduced on 1 October 2018 improving efficiency and facilitating effective competition in the market.

4.3 Since the new arrangements were introduced they have delivered significant benefits, including making more efficient use of the interconnectors that connect the SEM with the GB market; delivering a market that reflects the underlying cost of generation and delivering increased competition. The new capacity remuneration mechanism has delivered significant savings and allows new and existing generation to compete together. More detail on the trends and performance of the SEM is available on the SEM Committee website[6].

4.4 In addition to regulating the SEM, the SEM Committee also oversees a number of all-island electricity market tariffs, including charges for generation capacity, the operation of the market (for SEMO and SEMOpx) and market imperfections (for constraints). Details of the movements in the maximum amount recoverable for these SEM charges on an all-island basis are set out in Table 3 below.

Capacity charges

4.5 The CRM is designed to secure sufficient generation capacity through a competitive auctions process to aid security of supply. The first auction secured c€200m annual reduction compared to the costs under the old SEM arrangements. The auction for 2020-21 cleared at a cost of €360.3m and for the first time a K-factor adjustment is included on top of this auction cost. The K-factor amount is €9.9m, this is an adjustment relating to the under recovery of Supplier Capacity Charges in previous years. The sum of these two values forms the basis for Supplier Capacity Charges in the upcoming tariff year.

Imperfection charges

4.6 Imperfections charges are mainly the costs associated with constraints on the all-island transmission network. Constraints are caused by network

[6] https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-031%20MMU%20Quarterly%20Report%20Q1%202020.pdf

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.

4.7 The imperfection costs for 2020/21 have changed for a number of reasons, including an increase in the scale of scheduled transmission outages, revised interconnector flows and wind profiles and revised generator outage plans. Sharply lower fuel costs have also been a major influencing factor along with a reduced demand forecast resulting in an overall lower forecast. For 2020/21 the K-factor element which was a small over-recovery has not been a major factor in the overall cost. Further detail on the breakdown of imperfections costs available from the SEM Committee website[7].

4.8 For 2020/21, the imperfections charge is €301.1m compared to €355.8m for 2019/20. The SEM Committee will continue to scrutinise the core drivers of these costs. Going forward, the delivery of key network infrastructure such as the second North-South interconnector will help mitigate these costs further.

Market Operator charge

4.9 SEMO incurs operational costs while carrying out its balancing market functions and recovers these costs, together with capital related costs including a rate of return, through Market Operator tariffs and fees, which are levied on market participants. To facilitate this recovery of costs, the Market Operator submits proposals on its allowed revenue and the charges required to recover this revenue to the Regulatory Authorities (RAs).

4.10 The 2018-21 SEMO Price Control covers the period from the new SEM go-live of 1 October 2018 to 30 September 2021[8]. There is a total entitlement under this Price Control of €11.1m for the upcoming tariff year. This price control allowance excludes capital expenditure because there was too much uncertainty for this cost area at the time of making the price control decision in 2018 due to the new SEM going-live that year too.

4.11 SEMO have submitted their Market Operator revenue requirement for tariff year 2020/21 which has been approved by the Regulatory Authorities[9]. This

[7] SEM-20-058 Imperfections Charge 2020/21 and Reforecast Report 2018/2019 Decision Paper | SEM Committee
[8] https://www.semcommittee.com/sites/semc/files/media-files/SEM-18-003%20SEMO%20Final%20Determination%20SEMC%20FINAL.pdf
[9] https://www.semcommittee.com/publications/sem-20-051-semo-revenue-requirement-and-k-factor-

revenue requirement of €16.6m includes the price control allowance and also a forecast depreciation and return of €5.5m for the 2020/21 tariff year.

4.12 As the new SEM went live in 2018 there are two K-factors applicable for the 2018/19 tariff year. A legacy SEM K-factor for an over recovery of €1.6m and a new SEM K-factor for an under recovery of €1.4m have both been provided by the SEM Committee[10].

4.13 SEMO will therefore receive a revenue for 1st October 2020 until 30 September 2021 of €16.5m.

SEMOpx charge

4.14 SEMOpx is the designated Nominated Electricity Market Operator (NEMO) for the all-island market and offers its trading facilities via power exchanges. This means SEMOpx provides the only route to access the day ahead and intra-day markets. A price control mechanism currently exists for SEMOpx to allow for the recovery of operational costs together with capital related costs including a rate of return. To facilitate this recovery of costs, SEMOpx submits proposals on its allowed revenue and the charges required to recover this revenue to the Regulatory Authorities (RAs).

4.15 The 2019-22 SEMOpx Price Control covers the period 3 October 2019 to 2 October 2022[11]. There is a total entitlement under this Price Control of €3.8m for the upcoming tariff year.

4.16 SEMOpx have submitted their revenue requirement for tariff year 2020/21 which has been approved by the Regulatory Authorities[12]. This revenue requirement of €3.1m includes the price control allowance of €3.8m and a K-factor over recovery adjustment of €0.7m for the 2018/19 tariff year.

4.17 SEMOpx will therefore receive a revenue for 1st October 2020 until 30 September 2021 of €3.1m.

202021-information-paper

[10] https://www.semcommittee.com/publications/sem-20-051-semo-revenue-requirement-and-k-factor-202021-information-paper

[11] https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-007%20SEMOpx%20Price%20Control%20Decision%20Paper.pdf

[12] https://www.semcommittee.com/publications/sem-20-050-semopx-revenue-requirement-and-k-factor-202021-information-paper

Overall SEM charges

4.18 Table 3 below shows the amount recoverable under the SEM charges in 2020/21. The amount has decreased by 3.8%:

	2019/20 €m	2020/21 €m	Change %
Capacity	344.9	370.2	7.3
Imperfections charge	355.8	301.1	-15.4
Market Operator charge	14.0	16.5	18.0
SEMOpx charge	3.7	3.1	-16.2
Total	**718.3**	**690.9**	**-3.8**

Table 3 : Charges regulated by the SEM Committee