



Energy Prices in Northern Ireland Utility Regulator Briefing

August 2021

 **Utility Regulator**
ELECTRICITY GAS WATER

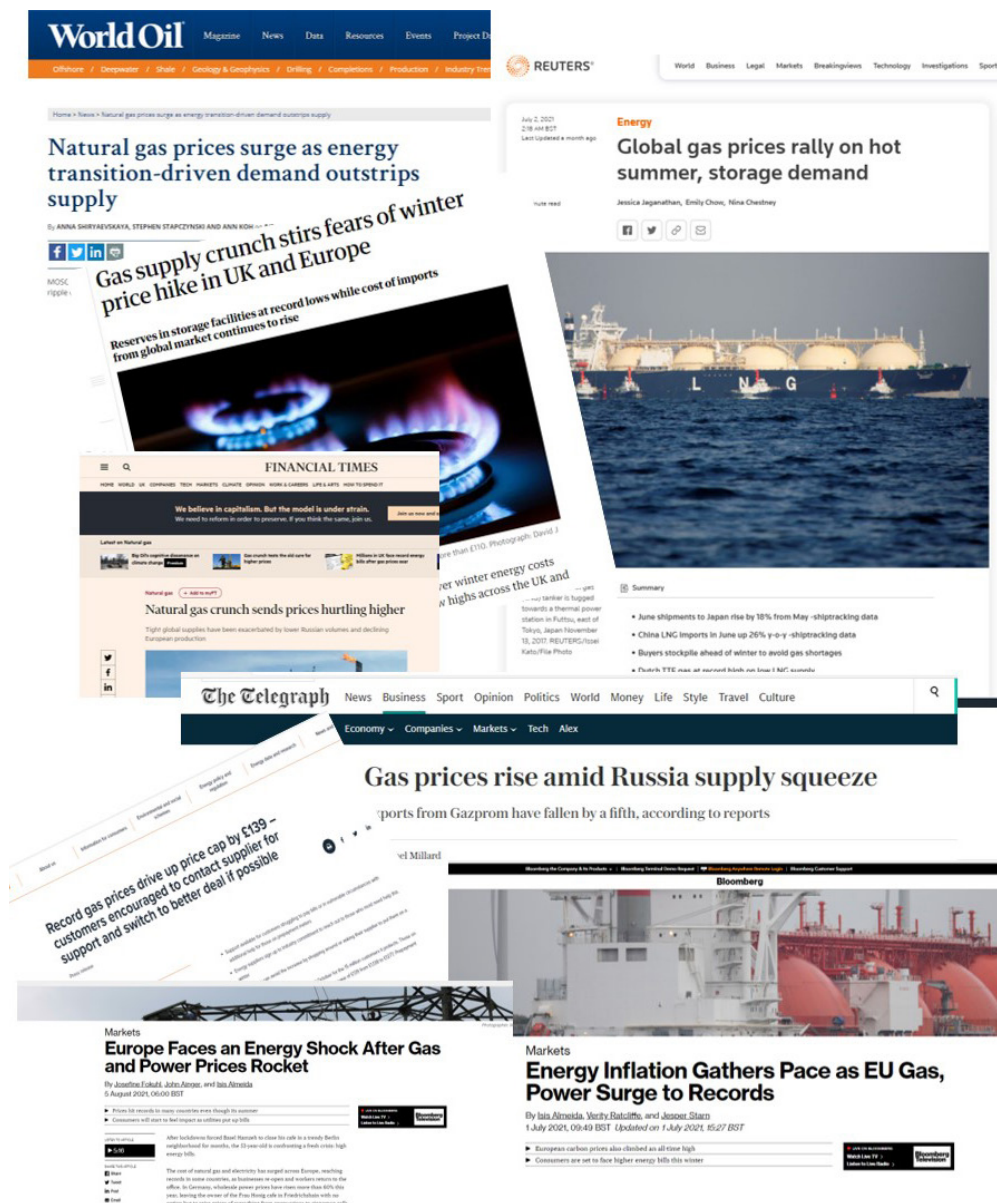


Worldwide energy price increases

Global energy prices have risen to unprecedented levels during 2021. Wholesale gas costs in Europe have hit all-time highs with UK gas costs at their highest since 2005. High wholesale energy prices coupled with rising demand are putting extra pressure on reserves, rising scarcity and placing an upward pressure on costs. Other factors increasing the price of wholesale gas include, for example:

- declining European production
- higher demand in Asia and South America
- reduction of supply from Russia
- depleted reserves - due to a longer and colder European winter
- high price of carbon driving higher demand for gas

International market forces therefore impacted on energy prices in NI, GB and ROI. OFGEM announced a 12% increase to the energy price cap due to rising wholesale gas costs, bringing it to its highest ever level - £626/annum for domestic gas consumers and £812/annum for domestic electricity consumers. Suppliers across GB and ROI have also announced increases in tariffs because of worldwide fuel price pressures.

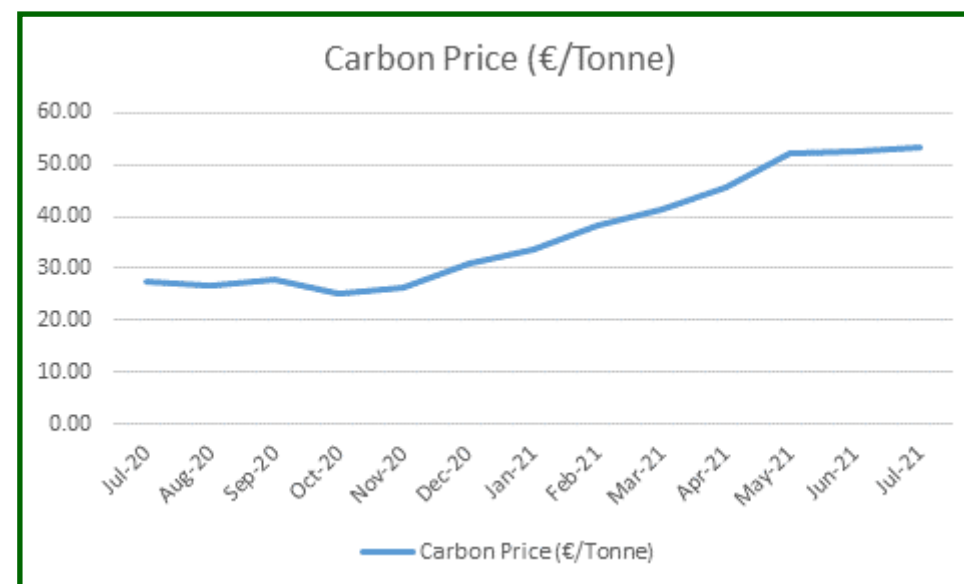
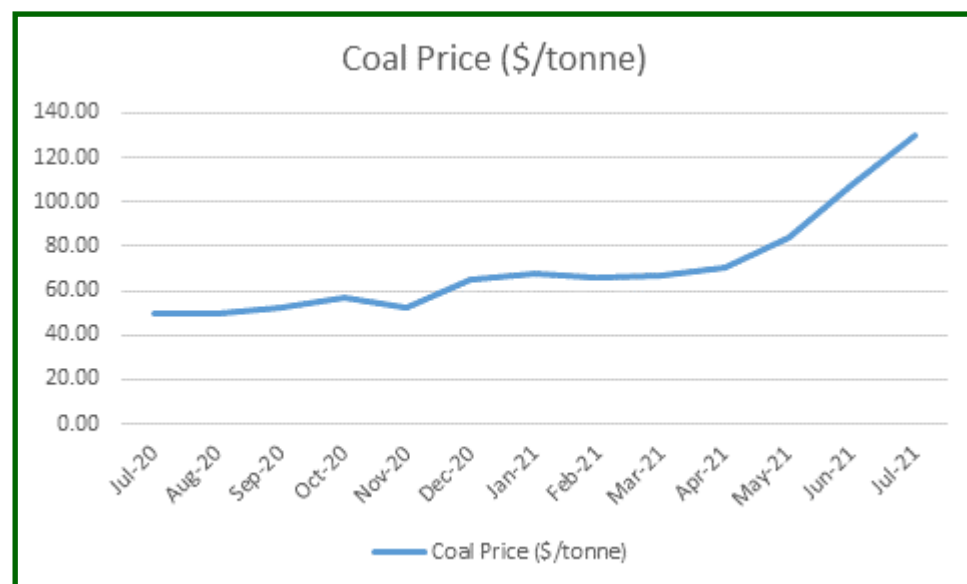
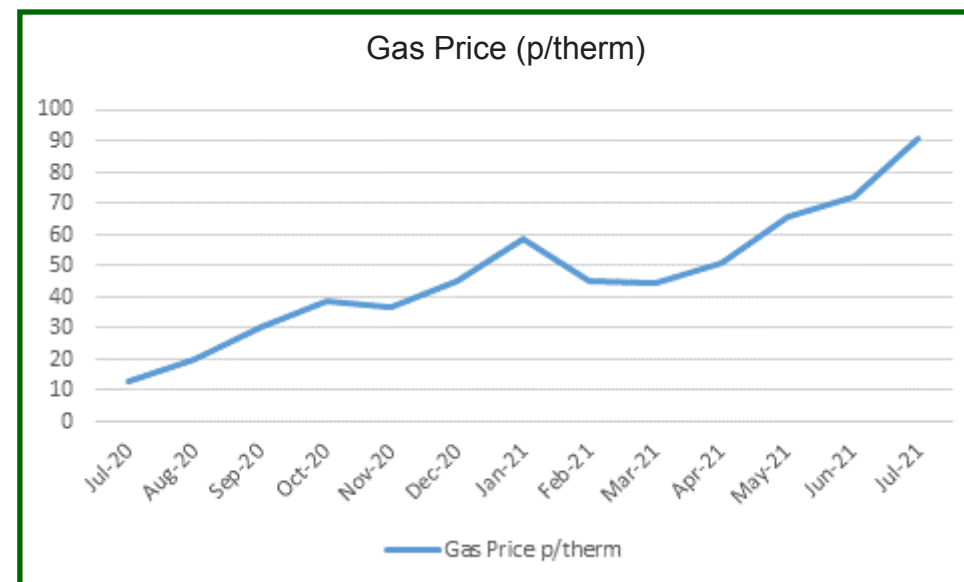


Overview of global costs increases

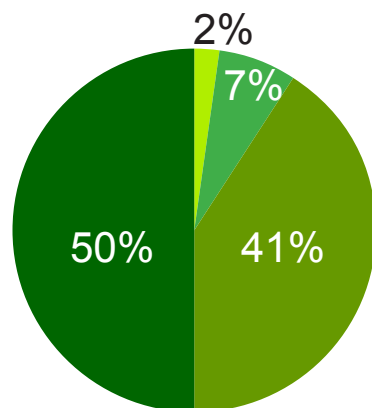
Wholesale gas prices in July 2021 were 630% higher compared July 2020. This has continued the trend of historically high gas prices.

Alongside the substantial increases in international gas prices, the price of other key energy costs, including coal and carbon, have also increased significantly.

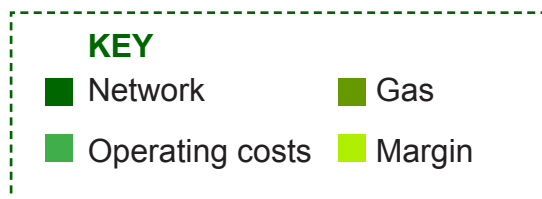
The graphs opposite show the extent of these increases over the past year. Forecast prices for gas, coal and carbon see further steep rises as we move towards winter.



Gas prices for domestic and business consumers are made up of a number of distinct elements within the gas cost chain, as shown below. As there are currently three distinct gas distribution areas in Northern Ireland (Greater Belfast, the West and the Ten Towns) the allocation of these elements varies slightly.

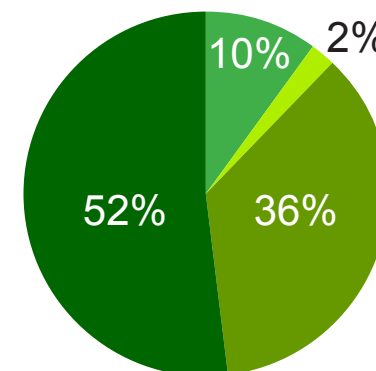


Greater Belfast and the West (SSE)

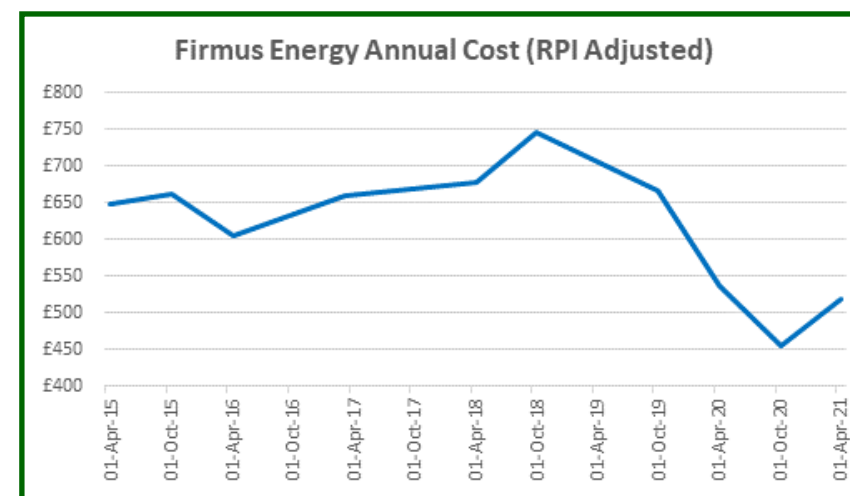
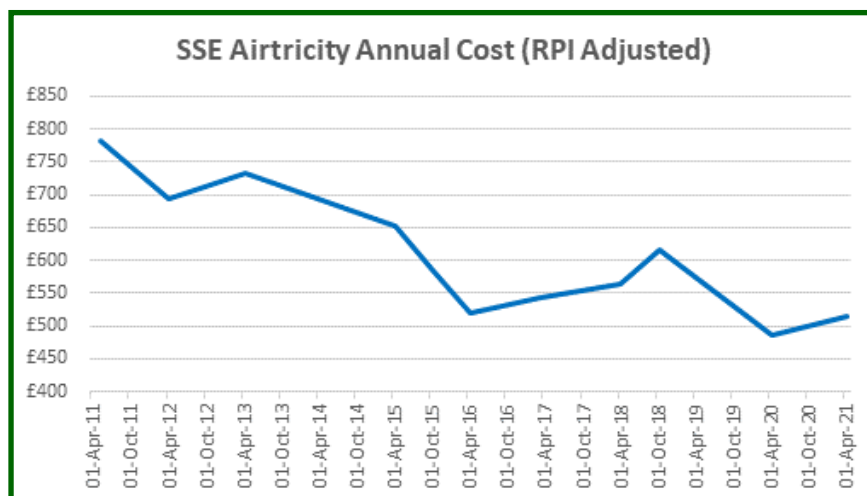


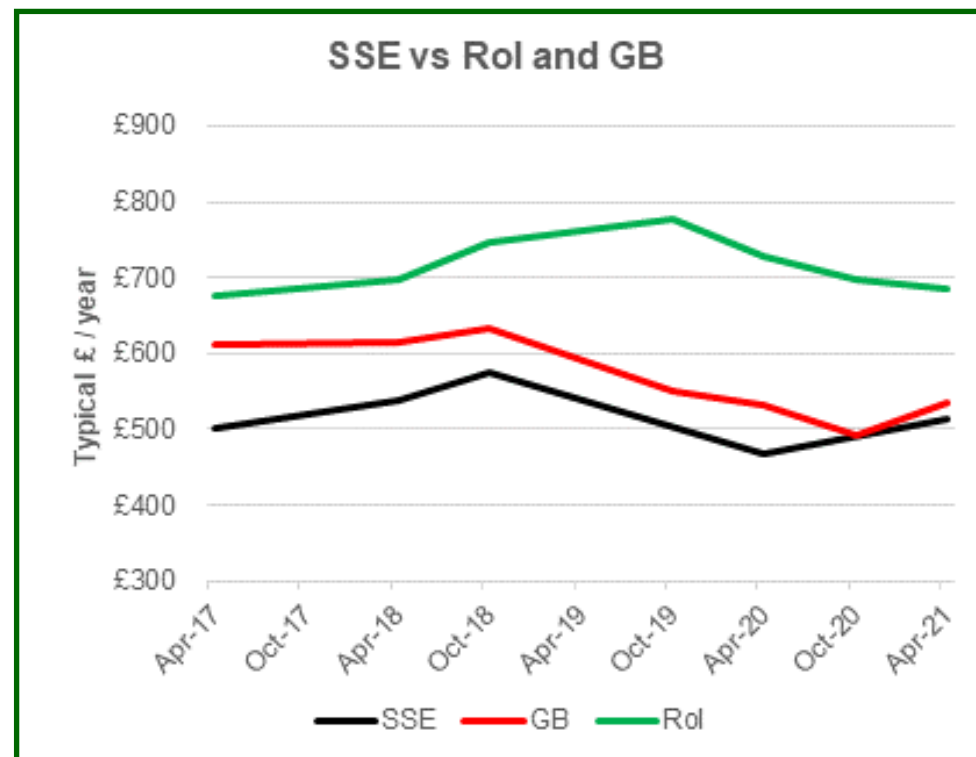
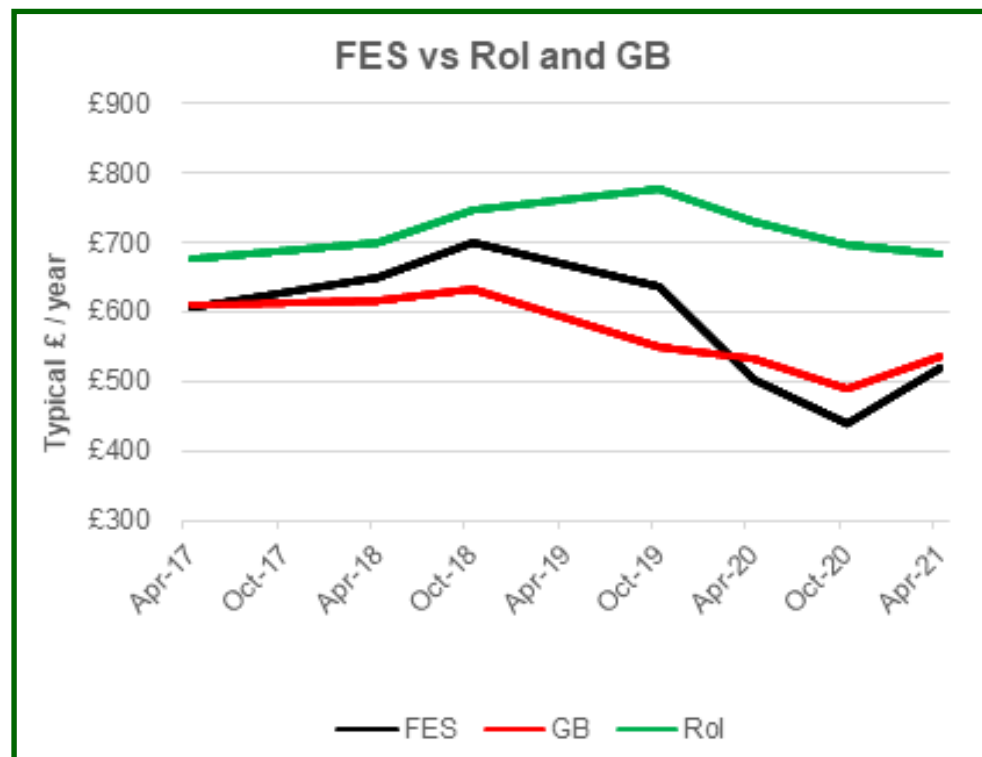
We scrutinise all elements that make up the tariff and the cost allocation will change depending on the level of each cost element, including the wholesale cost of gas.

Cost allocation as of 1 April 2021



Ten Towns (Firmus)





Gas prices in Northern Ireland have historically been below the average prices seen in ROI and close to, or often below those seen in Great Britain.

The gas market in Northern Ireland is less mature than the both the GB and ROI markets yet our prices remain competitive.

Our regulation of gas suppliers - overview

- In Northern Ireland we regulate the prices and SSE Airtricity Gas supply (for gas in the Greater Belfast and West areas) and Firmus Energy (for gas in the Ten Towns area).
- We do this through periodic price control reviews of regulated suppliers' costs and revenues.
- The price control reviews set limits on things like suppliers' costs which are then reflected in the regulated tariffs which customers pay.

Why we regulate gas supply tariffs

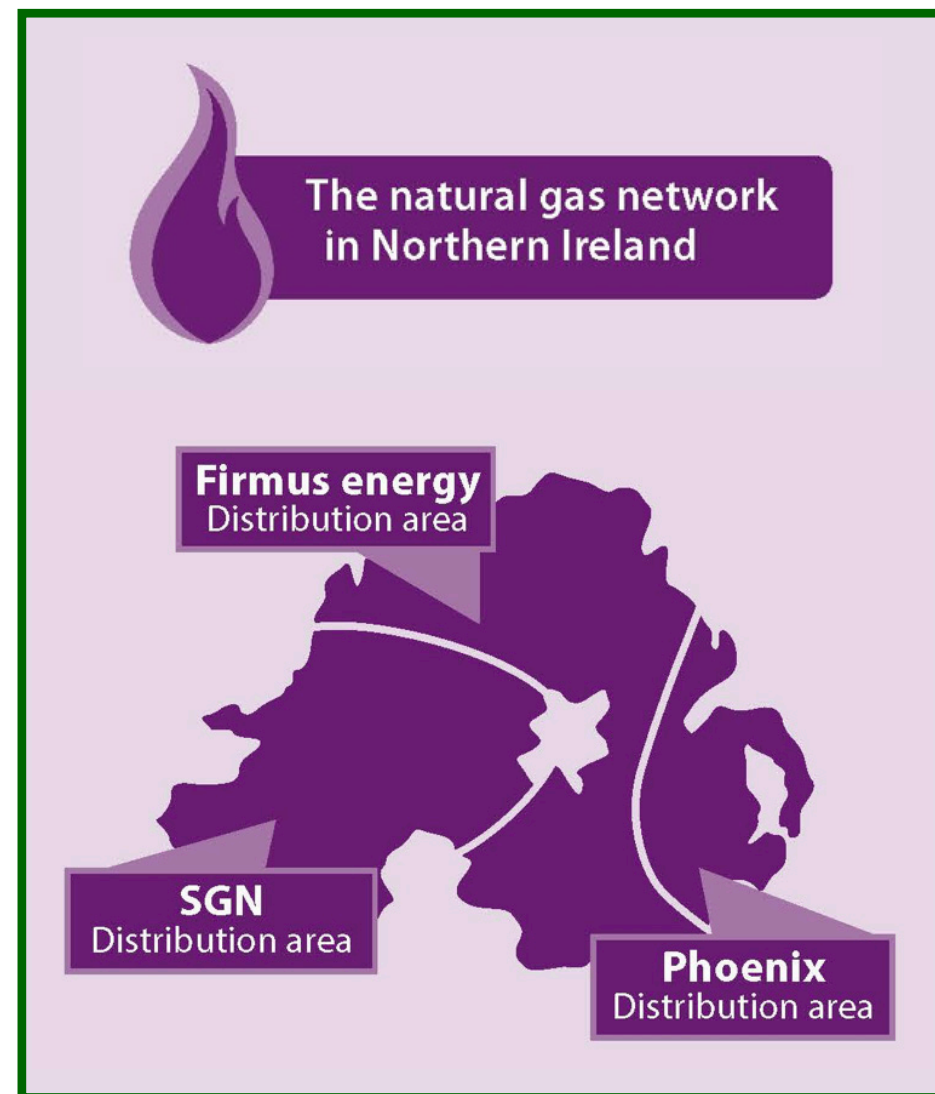
Our system of regulation in Northern Ireland ensures that regulated tariffs always reflect the actual cost of supplying electricity and gas to consumers.

We have full sight of all the elements that make-up a customer's bill. This price regulation is the equivalent of the price cap operating in GB and ensures that regulated electricity and gas prices in Northern Ireland compare favourably to GB, and also to ROI.

Our system of regulation in Northern Ireland also ensures that consumers have also a choice of non-regulated suppliers who compete against the regulated suppliers.

We have commenced the tariff reviews of Firmus Energy in the Ten Towns area and SSE Airtricity in Greater Belfast and the West. The companies can request any changes to their tariffs based on their changing costs and seek approval from us. Any changes will take effect from 1 October 2021.

Overall, a key context for these tariff reviews are the widely reported increase in the wholesale cost of gas. Forecasted gas costs have increased significantly in 2021, particularly for winter 2021.



In Northern Ireland we regulate the prices charged by Power NI for electricity. All electricity bills reflect the costs to deliver the three key elements of the electricity system – wholesale, network and supply. Through our price controls, tariff setting, scrutiny and detailed analysis we make sure the prices you pay reflect costs.

To protect consumers we continue to regulate the largest electricity supplier in NI, Power NI. We monitor prices continually and act quickly to reflect any savings in consumers bills. Although we do not price regulate other competing suppliers, they are under pressure to keep their costs, and hence their prices, down to win new customers and keep their existing ones.

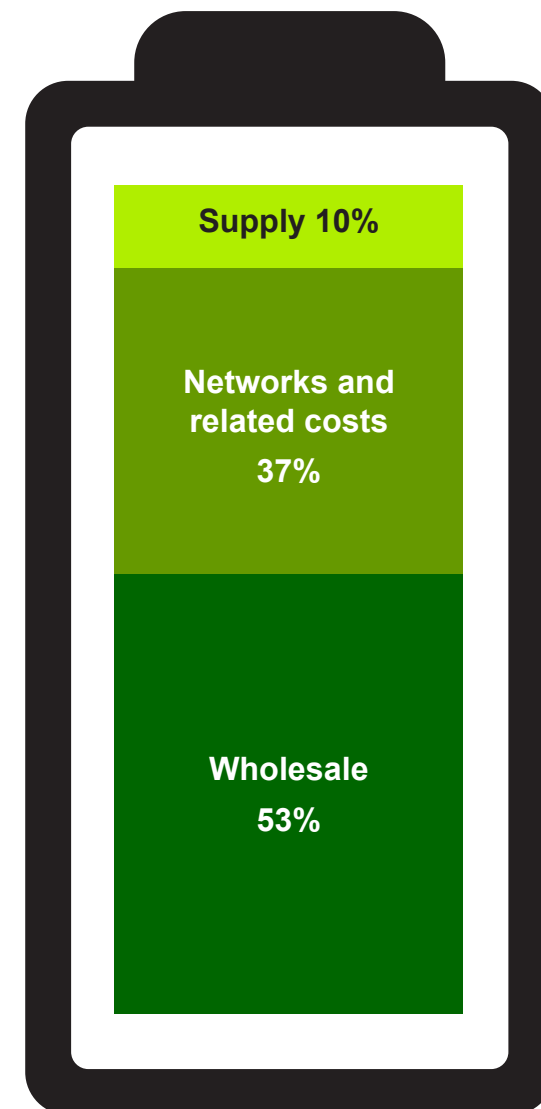
Through our price control for Power NI, we also control the amount of profit the company is able to make. If the company makes more profit in a given period than our price control allows, we ensure this money is given back to customers through their tariff during the next period.

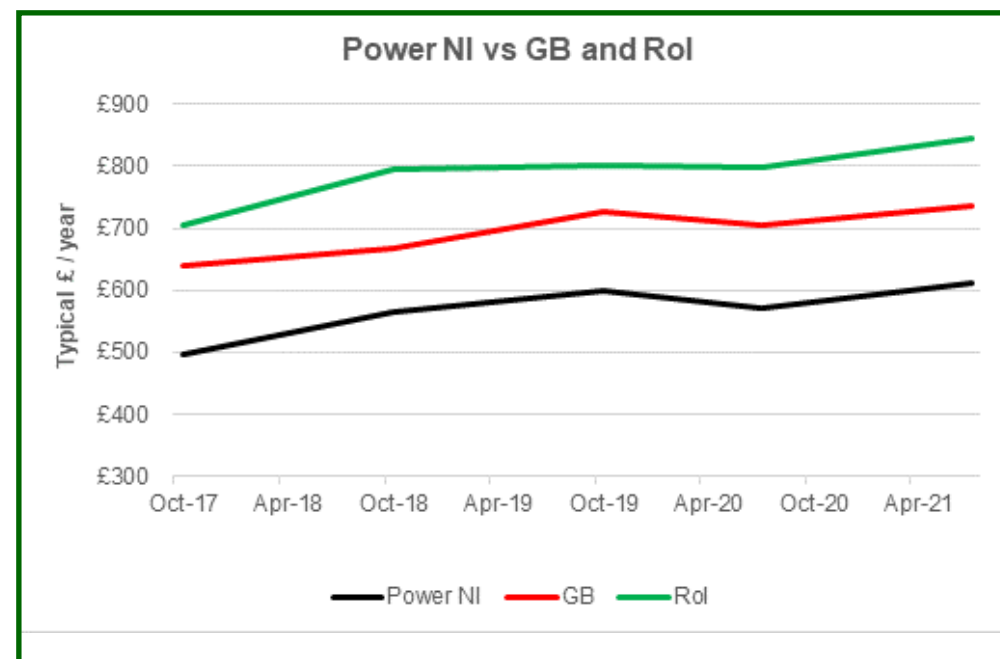
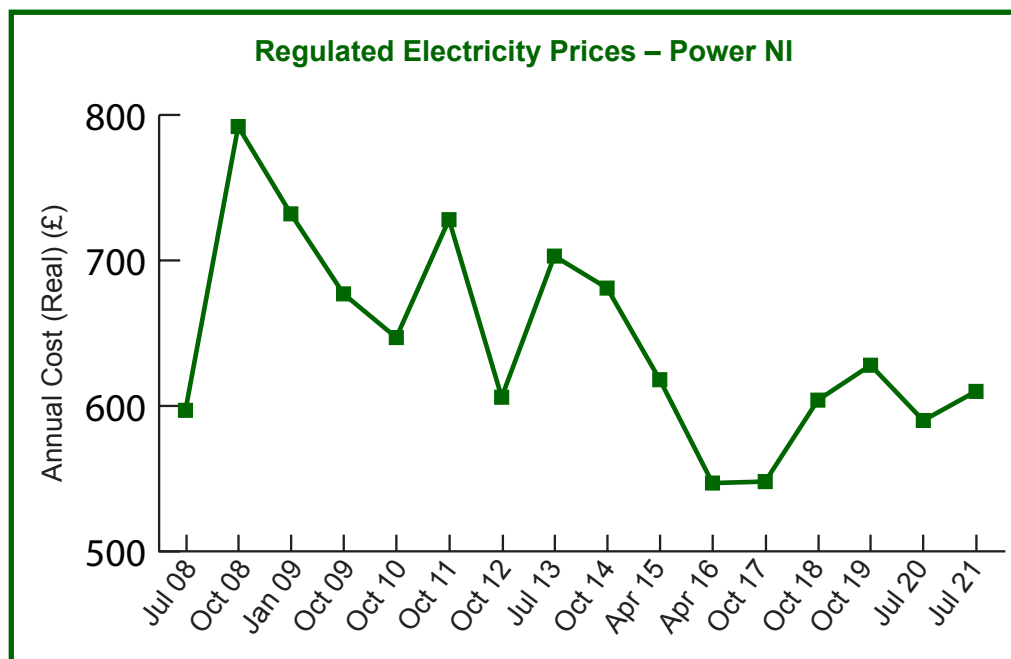
We also review annually the network costs that make up part of the final consumer tariffs.

The cost of energy is the most significant element of the wholesale element of the tariff. with network costs making up the next largest portion of a consumer bill. Our scrutiny of electricity network charges will see reductions to the network element of the tariff for consumers from 1 October 2021. As a result of our reviews, overall network costs will be reducing from 1 October 2021.

Power NI increased their prices by 6.9% which came into effect on 1 July 2021. Despite the recent cost pressures seen in the wholesale electricity market, there are no immediate plans to increase the Power NI tariffs in 2021.

Breakdown of an Electricity Bill

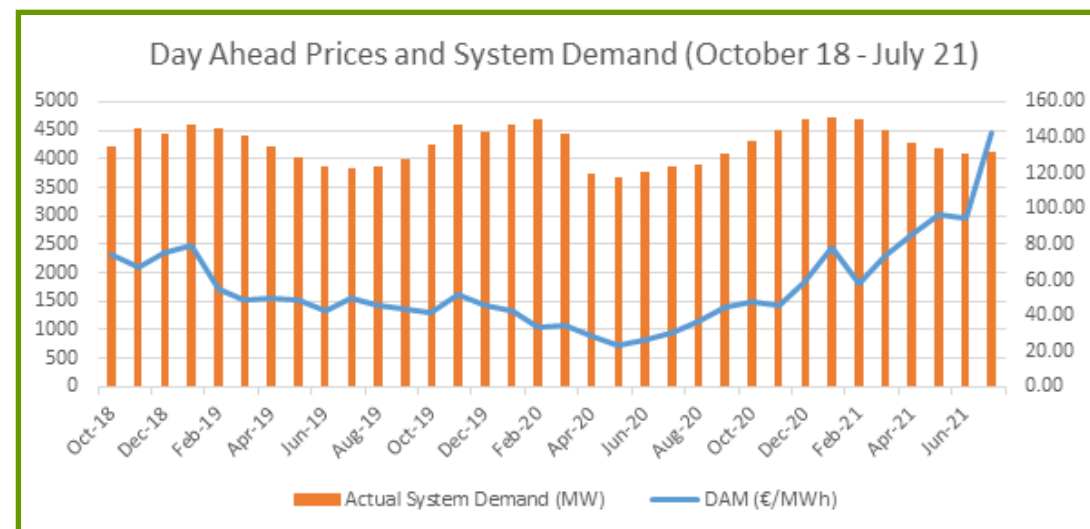
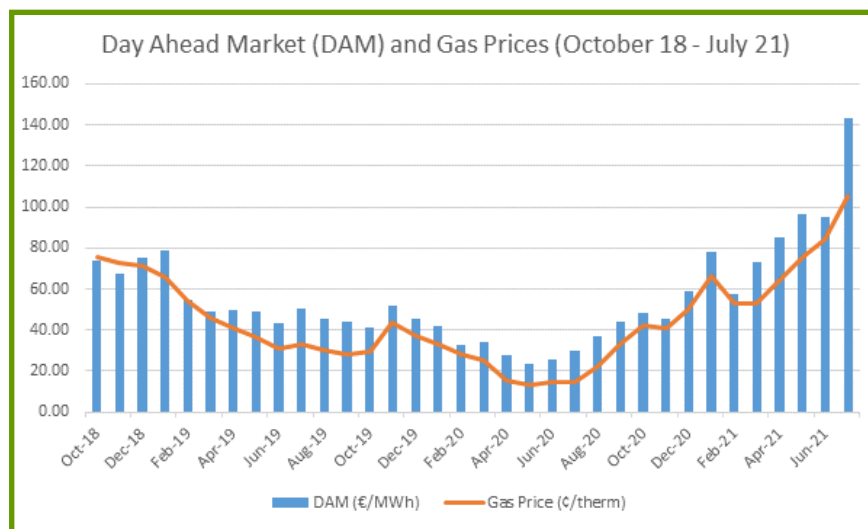




Recent non-price regulated suppliers tariff movements

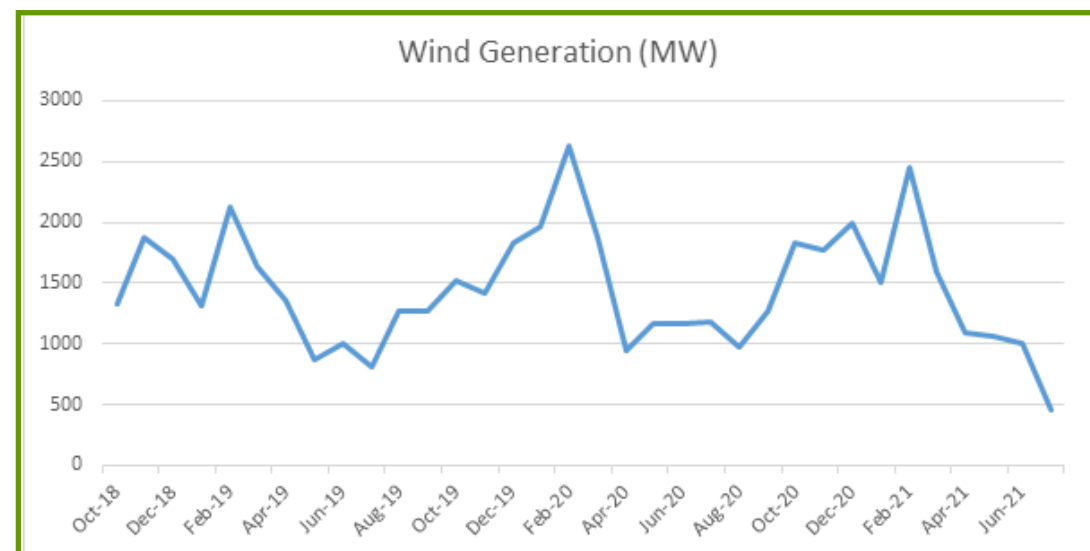
- Click Energy +9% (from 1 September 2021)
- Electric Ireland +10.2% (from 1 August 2021)
- Budget Energy +14.9% (from 2 July 2021) and +3.9% (from 1 March 2021)
- SSE Airtricity +9.7% (from 1 August 2021)
- Bright Energy +20% (from 9 September 2021)

Power NI tariffs continue to fall below those seen in Great Britain and ROI. Although prices have risen in July 2021, they remain below some of the higher prices seen as recently as 2019 and in previous years.



The increases we have seen in international commodity costs have affected the cost of wholesale electricity. Higher gas, coal and carbon costs are driving up the prices seen across our trading markets with notable increases during the first six months of 2021 in particular.

In addition, we continue to see higher costs in periods with lower wind availability, and lower costs with higher wind availability. Wind availability has been particularly low over the past few months as worldwide fuel prices rise. In July 2021, we saw a 62% drop in wind availability compared to the same period last year. Low wind availability has been the main reason for a gap between prices in the SEM and the wholesale market in GB. This low wind availability, coupled with significant plant outages has had a negative impact on wholesale electricity prices. As these larger units return to service and levels of wind increase, the gap between the SEM and GB wholesale prices should close and return to similar levels.



Helping keep costs as low as possible

Our system of regulation in Northern Ireland means we have complete transparency of all the costs that make up regulated prices and we fully scrutinise each element of the tariff to ensure it is justified. We have also taken further steps to help place a downward pressure on costs for consumers by:

- announcing a reduction in network gas costs, which will reduce the impact of wholesale price rises to households by up to £20 a year.
- working with stakeholders including DfE and BEIS to improve the efficiency of SEM-GB trading.
- scrutinising of electricity network charges will see reductions to the network element of the tariff for consumers from 1 October 2021.
- scrutinising imperfection charges and will deliver a reduction compared to the request of the system operator.
- increasing the levels of contracts, known as directed contracts, directly accessible to smaller suppliers to help during this period of high wholesale prices.



We have asked suppliers to provide support for consumers by:

- Adequately assessing customers' ability to pay
- Being as flexible as possible
- Reminding them of their obligations to avoid customer disconnections
- Asking them to consider the Breathing space principles – providing protections for people in debt
- Ensuring they communicate directly with pre-payment meter customers
- Asking them to consider an industry-led financial hardship fund to support the most vulnerable customers
- Reminding them of their obligations under existing codes of practice

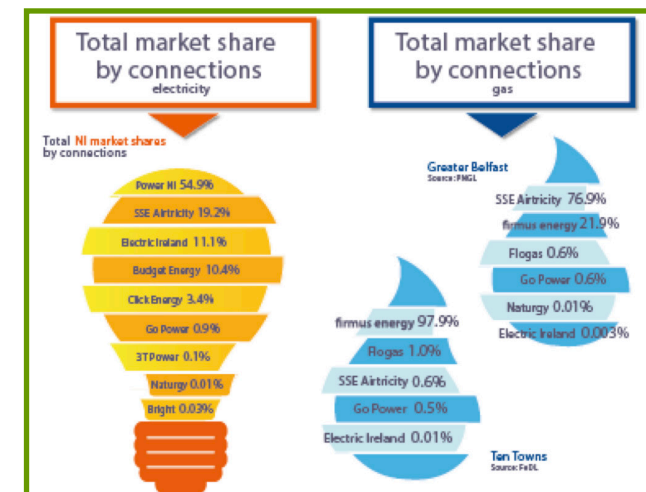
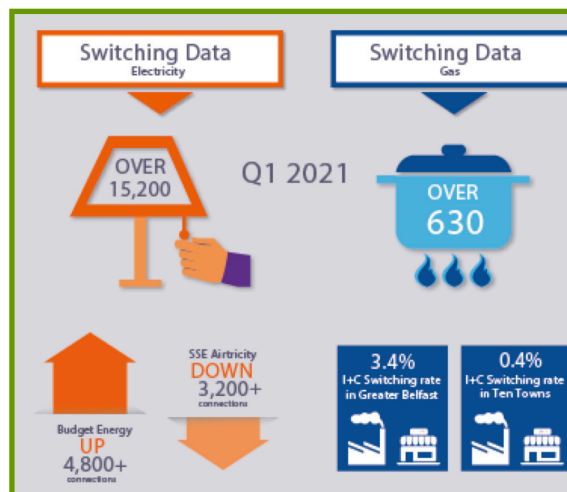
Key Market Data

The electricity and gas (in the Greater Belfast area) markets have been open to competition to domestic customers since 2007 and 1996 respectively. However, there were no competing suppliers in the electricity or gas domestic markets until 2010.

The Ten Towns area opened to gas competition for domestic and small business customers in April 2015 and there is currently one domestic supplier in this area. There is currently one gas supply company in the west area also (SSE). As competition grows, consumers will have access to greater levels of choice. However, levels of switching show the continued reluctance of many consumers to change their energy provider. However we encourage consumers to

1. Be aware of the suppliers in their area
2. Consider the tariff they are currently on, if on a standard variable tariff it is likely they are not on the most competitive deal
3. Check out other tariffs - the Consumer Council for Northern Ireland (CCNI) has an Energy Price Comparative Tool which outlines the electricity and gas tariffs available from every supplier in NI.

Another factor that greatly determines the size of a bill is how much energy is used. Investing in energy efficiency measures can also help reduce bills.



Wholesale electricity costs in NI are the same as in RoI as they are drawn from the SEM. Wholesale costs in both GB and the RoI are higher than the majority of EU countries. Several potential factors may drive the difference between wholesale costs in the SEM and GB versus Europe: higher raw fuel input prices, generation mix, market design, policy differences and charging structures. Network costs in NI are significantly lower than the Republic of Ireland and are similar to those in GB comparator regions. The RoI allocates more network costs to household and small business customers – which benefits larger business customers. GB allocates more costs to larger business customers than Northern Ireland.

Regulators play their part through controlling energy monopolies, maintaining downward pressure on costs, fostering industry efficiency and promoting customer choice and energy efficiency options. But other parties impact significantly on electricity prices:

- industry, by ensuring energy efficiency and least cost in their actions and consumer prices
- the relevant Government Departments, through setting energy policy and strategic priorities; and
- customer representative bodies, in ensuring customers are active and educated about their energy choices.

We continue to work with all key stakeholders to help identify any potential cost savings and efficiencies for consumers.

