



Tariff Methodology Statement

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1 Executive summary

In setting tariffs Power NI must abide by various conditions of its licence, particularly those controlling its prices and preventing undue discrimination between customers or cross-subsidy.

This tariff methodology statement explains how Power NI intends to calculate its regulated tariffs¹ for the July 2021 – June 2023 period given the information that will then be available to it on the likely costs of supply.

Power NI intends to maintain the categories of its existing domestic tariffs. Power NI will keep under review the introduction of further tariffs in this sector. Power NI will notify the Utility Regulator prior to the introduction of such tariffs.

Through its regulated tariffs, Power NI is permitted to recover an amount equal to its wholesale generation, transmission costs, distribution costs, renewable obligation costs, any correction factor and an allowed revenue for the supply business itself². The charges on each tariff will be set so that there is an expectation that, at the forecast demand, they will recover an amount equal to the expected costs and allowed revenue allocated to that tariff.

The process of allocating transmission, distribution and supply costs, which are governed by their own price controls, is relatively simple. Wholesale, or generation costs, will be allocated between half-hours according to a Portfolio Supply Tariff (PST) for all time periods from which, given the load shape assumed for the tariff category, the generation component of the charge can be calculated. The half hour PST will be calculated using generation contract costs, forecast energy costs and other generation items³ that are mainly pre-set by the regulators or market operators. It is expected that, using Power NI's base forecast for demand, energy prices, contract costs etc., forecast revenue from the wholesale price component of the tariff will equal forecast generation costs.

In the all-island retail market there may be errors in the forecasts of demand and of the costs of serving it. These may stem from a number of factors including variations in customer numbers and their electricity consumption, inaccuracy of loss factors, weather, theft, electricity and fuel prices, plant availability, regulatory policy uncertainty and exchange rates. Power NI's policy towards abating these risks is set out in its hedging policy statement. However, this will not result in their complete removal. Power NI will therefore monitor their impact prior to, and over the course of the year. Having due regard to the relative level of uncertainty in tariffs, if they cumulatively lead to a likelihood of an error exceeding $\pm 2.5\%$ in any year, Power NI will consider the introduction of a tariff adjustment.

Power NI will modify this Statement if the scope of the future price control leads to a change in the extent of regulated tariffs.

¹ Regulated tariffs are relevant to "Regulated Customers" as defined in Power NI's licence (Latest modifications - Annex II)

² See Appendix 2

³ including without limitation; capacity charges, imperfections charges, currency exposure costs, market operator charges, CfD associated costs, collateral costs, ISEM participation costs and de minimis micro-generation costs

2 Introduction and regulatory requirements

A number of conditions of Power NI's licence affect how it may set its regulated tariffs. In particular, it is required to:

- Use its best endeavours to ensure that the average charge per unit supplied does not exceed a price control maximum, which is calculated by adding the average cost of its purchases of electricity generation, transmission etc to an allowed supply business charge;
- Ensure that it does not sell electricity to any customer in any market in which it is dominant, on terms which are materially more or less favourable than those on which it sells to other comparable customers;
- Avoid cross-subsidising other businesses.

In order to assist the Utility Regulator in scrutinising its adherence to these and other licence conditions, Power NI provides information to the Regulator. This includes advance notice of the tariffs themselves and forecasts of what it expects to be its average charge and average costs.

This tariff methodology statement precedes the provision of information on tariffs and forecasts of average revenues and costs. It explains how, at a later date, Power NI intends to set its tariffs for the July 2021 – June 2023 period given the information that will then be available to it on its likely costs of supply.

3 Background

Tariff customers for the current and forthcoming tariff will consist exclusively of domestic customers. With active domestic competition and customer migration between suppliers.

3.1 Tariff structure

Power NI intends to maintain the categories of its existing domestic tariffs.

Thus Power NI expects to set 5 tariffs, in addition to serving some customers on discontinued tariffs such as the “off-peak” preserved tariffs.

These are:

- Domestic
 - Home energy – a per unit price with no standing charge. As will, to some extent, be the case on any tariff its structure does not entirely match that of the cost drivers, since there are some fixed costs. However, the tariff is; socially progressive, popular and matches the price structure of most goods and services purchased by customers.
 - Eco-energy – a similar tariff to home energy.
 - Power-shift tariff – utilising keypad metering time of day functionality.
 - Energy shift tariff - standard domestic time of day.
- Economy 7 – a tariff with more disaggregated charges, i.e. a standing charge and separate day and night unit rates.

The terms of all tariffs differ slightly depending on whether payment is made by quarterly credit, direct debit⁴ or keypad prepayment meter. Such differential pricing is reflective of the underlying cost to serve for each payment type.

3.2 Customer numbers and demand

Power NI will project the number of customers on each tariff based on previous years’ recorded numbers and projections of household formation, economic activity and competitive customer migration.

The demand on each tariff will also be projected based on previous years’ recorded numbers, projections of customer numbers and economic activity. This will be done over the entire load shape resulting in a projected demand in each half hour.

⁴ Postal channel, or On-line

3.3 **Risk treatment**

There will be risks to the forecasts of demand and to the costs of serving demand from a number of factors including variations in:

- Customer numbers
- Electricity consumption, including as a result of weather changes
- The effect of Global Settlement, in terms of both volume and shape variance
- Energy prices – affecting demand volume not matched by a CfD (including that resulting from demand variation)
- Fuel price variation – affecting unhedged contracts
- Plant availability - affecting non-firm contracts
- Exchange rates – affecting non-sterling contracts.

Power NI's policy towards abating these risks is set out in its hedging policy statement. However, this will not result in their complete removal. Power NI will therefore monitor their impact over the year. If they cumulatively lead to a likelihood of an error exceeding $\pm 2.5\%$ in any year, Power NI will consider the introduction of a tariff adjustment within the year.

4 **Components**

Through its regulated tariffs, Power NI is permitted to recover an amount equal to its wholesale generation, transmission costs, distribution costs, renewable obligation costs, any correction factor plus an allowed revenue for the supply business itself⁵. The charges on each tariff will be set so that there is an expectation that, at the forecast demand, they will recover an amount equal to the expected costs and allowed revenue allocated to that tariff.

4.1 **Wholesale**

4.1.1 Construction of a Portfolio Supply Tariff (PST)

Wholesale, or generation costs, will be allocated between half-hours on a portfolio supply charge for all time periods. This will be derived by calculating the cost per unit averaged over groups of time periods. Given the load shape assumed for a particular tariff category, the generation component of the tariff can be calculated. It is expected that, using Power NI's base forecast for demand, energy prices, fuel prices etc, forecast revenue from this component will equal forecast generation costs.

⁵ See Appendix 2

4.1.2 Contracts for Differences

Power NI will examine its contract (i.e. CfD) portfolio and allocate costs to each time period. The precise method of doing so will depend on the details of the contract portfolio but Power NI expects that:

- Where there is a two-way contract or hedge the cost of the demand covered by the contract assessed at the contract strike price will be largely allocated to that period.
- Where there is a one-way contract or hedge the allocated cost will be the demand covered by the contract assessed at the expected price, which is the expected value of the distribution of energy prices truncated by the strike price of the contract at the upper end.
- Where there is a premium payment, it will be allocated to the time periods covered by the contract. The allocation between periods may depend on the perception of the degree of risk in each period.
- Where there is expected over-contracting, perhaps because it was not economic to tailor the portfolio precisely to forecast demand, any expected cost of the overcontracting in overcontracted periods is likely to be allocated to other periods covered by the contract.

Normally, i.e. unless there are particularly skewed risk distributions; Power NI will calculate the cost of its contract portfolio using expected values of customer demand, energy prices, fuel prices etc.

4.1.3 New SEM Arrangements

Uncovered demand will be assumed to pay the expected prevailing wholesale market price.

4.1.4 Bilateral Purchases

Power NI may purchase energy on a bilateral basis. Examples of this may include, but not be limited to, de-minimis generation and purchases of energy over the interconnector. Power NI will apply the costs of any bilateral trades, after taking into account any applicable associated costs (e.g. interconnector capacity costs etc.), using the same methodology as outlined for CfD costs.

4.1.5 Capacity charge

Power NI use the published supplier capacity charge, which is set in advance, to forecast capacity charges on a half hour by half hour basis. These capacity charges are then allocated to demand in the relevant time periods through the PST.

4.1.6 Other charges

Imperfections and market operator charges are also set in advance and will be allocated to the appropriate period. The SEMO administered currency charge has been replaced by an ex ante currency tariff, which will be reflected in the tariff setting process.

In the event that final imperfections and market operator charges are not published at the time of preparing tariffs, Power NI will use the best information available at that time for the purposes of tariff setting.

4.1.7 Load management

The allocation of the charges described under 4.1.2 to 4.1.6 will result in a Portfolio Supply Tariff, but Power NI may consider further adjustments if it considers that they are necessary to manage load and prevent it migrating with consequent changes in the energy price in the time periods from and to which the load migrates. Economy 7 night charge rates may be an example where a load incentive may be warranted.

4.2 Transmission

An element representing transmission charges will be included in each tariff. It is expected that the transmission charges will be published on a non tariff specific basis.

4.3 Distribution

An element representing distribution charges will be included in each tariff. Expected receipts on the tariff will normally equal expected distribution charge payments and any distribution services charges (i.e. common services transaction charges). Where the tariff contains charge elements (e.g. standing charge, unit charge, maximum demand charge) that are similar to those under which distribution charges are levied, the structure of the tariff charge element will normally mimic that of the distribution charge.

4.4 Levies

The PSO levy is expected to continue to be charged on a tariff basis (i.e. delivered unit basis), with SSS continuing to be charged at Trading Point along with the CAIR charge associated with the Moyle Interconnector.

4.5 Power NI's own costs and margin

An element representing Power NI's own costs and net margin will be included in each tariff. Expected receipts on the tariff will normally equal expected allowed revenue.

4.6 Correction factor

There will be an allocation of recovery correction to each tariff, based on an estimate of the proportion of the error that is related to the tariff.

5 Other terms

The terms of all tariffs will differ depending on whether payment is made by quarterly credit, direct debit or keypad prepayment meter.

6 Other supply obligations

6.1 Supplier of last resort

Power NI will maintain a supplier of last resort tariff in the form of a pass through tariff for larger customers. In the event of a supplier of last resort event being triggered, Power NI will consider whether the option of other tariffs can also be offered to the customers in question (e.g. standard tariff for smaller customers until the next review point).

6.2 Universal service obligation

Power NI's tariffs are available on a contractual basis to all customers that are connected to the network. This effectively discharges its Universal Service Obligation, which relates to the right of customers to be supplied with electricity of a specified quality within their territory at reasonable, easily and clearly comparable and transparent prices. However, depending on the credit situation, Power NI may require an individual customer to be supplied on particular credit terms.

6.3 Northern Ireland Renewables Obligation (NIRO)

In common with all other electricity suppliers operating in Northern Ireland, Power NI is obliged to purchase a portion of the electricity it sells from renewable sources. Power therefore reflects the prevailing buy out charge and associated obligation percentage covering the tariff horizon.

7 Reporting

Power NI's licence requires it to provide a forecast of its allowed average revenue and the average cost components no later than fourteen days before any change in supply charges or, if there is no change in charges, within three months of the start of a year⁶.

To support this forecast Power NI will provide a statement of the hedges that it has purchased in advance of the period together with its expectation of the average cost of generation in the groups of time periods that it uses to calculate its tariffs (i.e. the Portfolio Supply Tariff).

⁶ A relevant year as defined in the price control.

The licence also requires that Power NI send a statement of the average cost that has been incurred in each component within three months after the end of the price control year.

8 Price Control

Power NI will apply the formula as stated in Annex 2 of its licence through the relevant tariff horizon.

UR may implement a licence modification in relation to the applicability of Annex 2 within this tariff timeline. As a prelude to any modification, Power NI, following communication with customers, may amend the portfolio of tariffs offered to customers.

9 Appendix 1

Current Domestic Tariffs

Tariff	Time Band	Jul-20
Standard Tariff Suite		
Home Energy	Standing Charge	£0.00
	SC per day	£0.00
	All periods	16.99
Home Energy <i>(Keypad)</i>	Standing Charge	£0.00
	SC per day	£0.00
	All periods	16.57
Economy 7	Standing Charge	£8.54
	SC per day	£0.09
	Day	16.37
	Night	9.13
Economy 7 <i>(Keypad)</i>	Standing Charge	£8.33
	SC per day	£0.09
	Day	15.96
	Night	8.90
Off Peak	Standing Charge	£1.41
	SC per day	£0.02
	All periods	12.79
Preserved Tariffs		
Off Peak <i>(Keypad)</i>	Standing Charge	£1.37
	SC per day	£0.02
	All periods	12.47
Powershift <i>(Keypad)</i>	Standing Charge	£0.00
	SC per day	£0.00
	Peak	26.49
	Normal	14.88
	Low	9.92

Power NI's Key Tariff Inputs



Energy
Capacity
Imperfections
Currency Exposure
Market Operator
CfD Related Costs
Collateral Costs
SEMOpX (Variable)
SEMOpX (Fixed)
ECC (Clearing fee)
ECC (Annual fee)
ECC Clearing Bank
REVLf
De Minimus Generation Costs
(i.e. micro-gen)

DUOS
TUOS
PSO
SSS
CAIRt
Distribution Services

Core Entitlement
ISEM/Directive Costs

Buy-out Costs
Less any residual,
savings in meeting RO