



Regulated Entitlement Values

2022/23 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 2022.

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.



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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 2022 - 30 September 2023).
- 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 2022, 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 Networks¹, SONI² and SEM website³ 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 2021/22 (1 October 2021 – 30 September 2022), therefore, the comparisons made below are between two forecasted revenue entitlements. For the sake of simplicity and transparency we have not updated the 2021/22 forecast from last year⁴, however, we have accounted for the latest available information to us, in our forecasts for 2022/23.
- 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 [2021-09-24 Regulated Entitlement Values.pdf \(uregni.gov.uk\)](https://www.uregni.gov.uk/2021-09-24-Regulated-Entitlement-Values.pdf)



- 1.7 The annex attached to this paper shows a five-year history for easy reference over the medium term, and readers may find this helpful in conjunction with previous year's narrative. A link to previous reports has also been provided.⁵

⁵ [Regulated Entitlement Values Information Note | Utility Regulator \(ureg.gov.uk\)](https://www.ureg.gov.uk/regulation/regulation-information-note)



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 2022/23 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 Underlying transmission revenue entitlement has increased between tariff years from £46.3 million in 2021/22 to £51.1 million for 2022/23. These figures are based on the best available forecasts of expenditure levels provided by NIE Networks and price control allowances set within RP6, updated with both actual and forecast inflation.
- 2.3 After allowing for K factor movements, which accounts for any true up of revenues in previous year's once actual values become known, approved TUoS charges are increasing from £44.2 million in 2021/22 to £51.1 million for 2022/23.
- 2.4 The net effect is that the TUoS revenue entitlement increased by 15.6% for 2022/23.
- 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 2021/22 revenue requirement of £35.4 million to £37.4 million. This represents a rise of 5.7% for 2022/23. The revenue increase follows the move in the total TUoS amount given that STUoS is calculated based on 75% of overall TUoS. For 2022/23 there is a K-factor impact of c. -£0.9 million slightly offsetting upward costs.

DUoS

- 2.7 Underlying distribution revenue entitlement has increased from £216.2 million in 2021/22 to £235.3 million for 2022/23. Similar to TUoS, these figures are based on the best available forecast of expenditure levels provided by NIE Networks and price control allowances set within RP6, updated with both actual and forecast inflation.
- 2.8 After allowing for K factor movements, which accounts for any true up of



revenues in previous year's once actual values become known, approved DUoS charges are increasing from £203.3 million in 2021/22 to £231.8 million for 2022/23.

- 2.9 The net effect is that the DUoS revenue entitlement increased by 14% for 2022/23.

System Support Services (SSS) charges

- 2.10 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.
- 2.11 SSS tariff revenue has decreased (-15.8%) from the 2021/22 value of £69.4 million to £58.4 million in 2022/23. The underlying total SSS revenue has decreased from £73.4 million in 2021/22 to £63.0 million in 2022/23. The difference in the total SSS revenue and that which flows into the SSS tariff is a result of a proportion of internal TSO costs (£4.6 million) being allocated to G-TUoS in line with our allocation [decision](#) to adopt the EirGrid approach in RoI.
- 2.12 The principal reason for the SSS revenue decrease is due to a substantial K-factor over-recovery of £18.3 million in 2020/21 being handed back to customers in 2022/23. The over-recovery occurred due to forecast ancillary service costs not materialising. UR also made a COVID risk mitigation provision of £4.3 million in 2020/21 which was again not required. When the K-factor impact is excluded, the underlying revenue is actually increasing.
- 2.13 It is worth noting that the SSS charge (in p/kWh) has actually decreased by a larger percentage than the regulated entitlement. Whilst revenue has fallen by 15.8%, SSS tariffs have decreased nominally by 18.2% from 0.984 p/kWh to 0.805 p/kWh. This is due to the fact that SONI demand forecasts have risen by 2.8% since the previous year forecast.

Collection Agency Income Requirement (CAIR)

- 2.14 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.
- 2.15 The Collection Agency Income Requirement (*CAIR_t*) which SONI collect from suppliers and pay to Moyle Interconnector Limited is apportioned across the predicted units transmitted.
- 2.16 For 2022/23, 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.

- 2.17 Moyle has advised SONI that up to £3.0 million should be returned to customers in 2022/23. At Moyle’s request, SONI has set the tariff (-0.041 p/kWh) such that £3.0 million will be returned to customers if demand equals SONI forecast of 7,250 GWh.

Overall Network and system support charges

- 2.18 Table 1 below shows that the maximum amount recoverable for network and system support costs charged to suppliers between 2021/22 and 2022/23.
- 2.19 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. Hyperlinks have been provided in Section 1 of this paper.

Entitlement	2021/22	2022/23	Change
	£m	£m	%
Supplier Transmission charges (STUoS)	35.4	37.4	5.7
Distribution charges (DUoS)	203.3	231.8	14.0
Support charges (SSS)	69.4	58.4	-15.8
CAIR	0.0	-3.0	-100.0
Total	308.1	324.6	5.4

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 include ongoing associated works at Belfast West and Kilroot including the renewal of leases. This has resulted in a relatively small positive revenue requirement.

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 £32.4 million in the 2022/23⁶ tariff year. This compares to a net saving of £23.3 million forecast for the 2021/22 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 2022/23 have been updated to reflect the latest forecast expenditure and have remained unchanged at £8.9 million for 2022/23. This is due to a true up of expenditure across financial years, which ensures available funding is spent on a cumulative basis.

⁶ 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.



Overall PSO charges

3.6 To summarise: Table 2 below shows that the maximum amount recoverable for PSO will change from a £12.7m rebate to a rebate of £21.8m for 2022/23.

	2021/22	2022/23	Change
	£m	£m	£m
Landbank	0.4	0.6	0.2
Legacy generation	-23.3	-32.4	-9.1
NISEP	8.9	8.9	0.0
K factor	1.3	1.1	-0.2
Total	-12.7	-21.8	-9.1

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. More detail on the trends and performance of the SEM is available on the SEM Committee website⁷.
- 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 auction process to aid security of supply. Capacity Auctions held for Capacity Year 2022-23 cleared at a cost of €377.6m. In addition, €1.6m of Multi-year Reliability Options, successfully awarded within previous Capacity Auctions is added to the total cost for 2022-23. The K-factor adjustment is deducted from the total capacity cost. The K-factor amount is €34.3m, this is an adjustment relating to the over recovery of Supplier Capacity Charges in the previous year. The sum of these three values forms the basis for Supplier Capacity Charges in the upcoming tariff year.

Imperfection charges

- 4.6 Imperfection 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

⁷ <https://www.semcommittee.com/news-centre/market-monitoring-unit-quarterly-report-q1-2022>



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 This charge is made up of a number of components to enable the management of the transmission system, the largest of which relates to Dispatch Balancing Costs (DBC), and in particular constraint costs. SEMO levies these charges on suppliers.
- 4.8 The imperfection costs for 2022/23 have been driven predominately by a significant rise in the forward prices of key commodities that determine electricity prices ie gas and, to a lesser extent, carbon. For 2022/23, the imperfections charge is €834.53 million⁸ compared to €330.8 million for 2021/22. The SEM Committee continues to scrutinise the core drivers of these costs and is working with the TSOs to develop a biannual review of the costs covered by Imperfections charges. This will allow for any reductions in these costs to be passed on to consumers as quickly as possible. In addition, the TSOs will bring forward proposals to modify the SEM Trading and Settlement Code to allow bi-directional alterations to the Imperfection charge factor. Further detail on the breakdown of imperfections costs available from the SEM Committee website⁹.

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.
- 4.10 SEMO has submitted its Market Operator revenue requirement for tariff year 2022/23 which has been approved by the Regulatory Authorities. The revenue requirement specific to 2022/23 is €21.3m.
- 4.11 The K-factor in respect of the 2020/21 tariff year is an over-recovery of €4.3m; the key reason for this adjustment is that SEMO spent less on its capital projects than allowed for.

⁸ The total imperfections charges was €870.81m but only a proportion of that is being charged in 2022/23 with deferral of the remainder divided equally across 2023/24 and 2024/25.

⁹ <https://www.semcommittee.com/publications/sem-22-045-imperfections-charge-202223-and-reforecast-report-202021>



- 4.12 SEMO will therefore receive a revenue for 1st October 2022 until 30 September 2023 of €16.98m¹⁰. This is reflected in the SEMO charging statement for 2022/23 published by SEMO on 9 September 2022¹¹.

SEMOpx charge

- 4.13 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).
- 4.14 The 2019-22 SEMOpx Price Control covers the period 3 October 2019 to 2 October 2022¹² and it is expected that allowable revenues for the 3 October 2022 – 2 October 2023 period will entail a ‘roll forward’ of actual revenues in the 2021/22 tariff year.
- 4.15 SEMOpx’s approved revenue requirement for tariff year 2022/23¹³ is €4.69m. Combined with a K-factor over recovery reduction of €0.22 million for the 2020/21 tariff year, SEMOpx will receive a revenue for 1st October 2022 until 30 September 2023 of €4.47 million.

Residual Error Volume

- 4.16 Residual Error Volume Price relates to differences between actual and metered volumes that can swing in both positive and negative directions.
- 4.17 This error volume can occur due to a number of reasons including; differences between actual consumption and profiled consumption of non-interval metered customers, and differences between loss-adjustment factors and actual losses on the transmission and distribution systems.
- 4.18 The total Residual Error Volume amount for 2022/23 is estimated at €14 million. Taking account of a K-factor over recovery of €26.75 million the total surplus for 2022/23 is €12.75 million.

¹⁰ <https://www.semcommittee.com/sites/semc/files/media-files/SEMO%20Revenue%20Requirement%20and%20k-factor%20202223%20Information%20Paper.pdf>

¹¹ <https://www.sem-o.com/documents/general-publications/2022-2023-SEMO-Charging-Statement.pdf>

¹² <https://www.semcommittee.com/sites/semc/files/media-files/SEM-20-007%20SEMOpx%20Price%20Control%20Decision%20Paper.pdf>

¹³ [SEM-22-048 SEMOpx Revenue Requirement for 2022/23 Information Paper | SEM Committee](#)



Overall SEM charges

- 4.19 Table 3 below shows the amount recoverable under some of the main SEM charges in 2022/23. The amount has increased by 60%:

	2021/22 €m	2022/23 €m	Change %
Capacity	372.7	344.9	-7%
Imperfections charge	330.8	834.5	152%
Market Operator charge	20.7	17.0	-18%
SEMOpX charge	3.9	4.5	15%
Residual Error Volume	13.0	-12.8	-198%
Total	741.1	1188.1	60%

Table 3 : Main charges regulated by the SEM Committee



ANNEX – Five year history tables.

The tables below show the charges over five years for ease of reference. The narrative for the five years is available in the previous years [Regulated Entitlement Values Information Note](#) on the Utility Regulator website.

Network and system support charges

Entitlement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Supplier TUoS	33.1	34.1	34.3	35.4	37.4
DUoS	199.6	214.4	219.1	203.3	231.8
Support charges (SSS)	81.7	55.9	53.6	69.4	58.4
CAIRt	0.0	0.0	-3.5	0.0	-3.0
Total	314.3	304.4	303.6	308.0	324.6

All prices in nominal terms

PSO

Entitlement	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Landbank	0.1	0.1	0.2	0.4	0.6
Legacy generation	-3.4	-10.1	-4.9	-23.3	-32.4
NISEP	8.5	8.5	9.3	8.9	8.9
K factor	-4.1	-8.7	-9.6	1.3	1.1
Total	1.0	-10.2	-5.0	-12.7	-21.8

All prices in nominal terms

SEM

Entitlement ¹⁴	2018/19 €m	2019/20 €m	2020/21 €m	2021/22 €m	2022/23 €m
Capacity	333.0	344.9	370.3	372.7	344.9
Imperfections charge	183.8	355.8	301.1	330.8	834.5
Market Operator charge	18.4	14.0	16.5	20.7	17.0
SEMOpX charge	0.0	3.7	3.1	3.9	4.5
Residual Error Volume ¹⁵	0.0	0.0	28	13.0	-12.8
Total	535.2	718.3	719	741.1	1188.1

All prices in nominal terms

¹⁴ Go-Live of revised SEM arrangements took place in October 2018. This table therefore provides information about both pre- and post- Go-Live.

¹⁵ In legacy SEM, a residual error volume charge was incurred on a real-time basis. However, information is not available for this period, hence values appear as zero.