8th February, 2006

Caroline Johnston
Commission for Energy Regulation
Plaza House
Belgard Road
Tallaght
Dublin 24

Re. PES Tariffs in the Context of SEM

Dear Caroline

ESB National Grid (ESBNG) welcomes the opportunity to comment on the recently published consultation paper (CER/06/002) on the determination of Public Electricity Supplier (PES) tariffs in 2007 in the context of the introduction of the Single Electricity Market (SEM). As the Commission has highlighted in its paper this is indeed a complex area and impacts not only on the relative position of the independent versus franchised, or regulated, suppliers but also the approach which will be taken for the determination of revenue, and development of tariffs, for the components which feed into the PES tariff. From ESBNG’s perspective these components include the Transmission Use of System tariffs, and from the middle of 2007 onwards the appropriate proportion of the costs associated with the operation of the Single Market Operator (SMO) which will be recovered from all market participants, including PES. In the case of the SMO, ESBNG is to be party to a Joint Venture (JV) with System Operator Northern Ireland (SONI). The determination of the allowable revenue which will be recovered by the SMO will a matter for joint regulatory determination in consultation with both parties to the JV. In its response to this paper ESBNG has limited its comments to its ability to provide the Commission with robust forecasts to enable it to determine PES tariffs under a timetable consistent with each of the options laid out in its paper.

The determination of allowable revenues, which are subsequently translated into TUoS tariffs, is subject to an annual Commission regulatory approval process. ESBNG is currently engaging with the Commission to develop a timetable for the determination of TUoS tariffs in 2007. It is clear that while the Commission and ESBNG have recently concluded a review of allowable revenue to apply to the TSO business from 2006-2010 that the process of producing 2007 TUoS tariffs will be complicated by a number of factors associated with the introduction of the new market arrangements. The Commission has identified a number of these in the consultation paper including changes in the treatment of constraints costs and any changes in the definitions or payment rates
for ancillary services. One possible implication of the changing basis for the recovery of costs which will occur under the new market arrangements may be a change in TUoS tariffs midway through 2007 which would reflect a shift in costs between the TSO and the newly established Single Market Operator (SMO). In addition the new arrangements may impose a number of additional costs on the TSO business not seen in the current market and for which the TSO will have to seek cost recovery. It is our understanding that a decision on the precise structure of the TUoS tariff in 2007 has not been finalised, and clearly this is a matter for the regulator to determine in consultation with the TSO, and industry participants.

A number of the options proposed in the Commission’s paper for the determination of PES tariffs in 2007 require the provision of forecast of variables which are at present very uncertain and for which accurate information and the models on which to base such forecasts are unlikely to be available with the suitable degree of certainty until much later this year. These would include elements such as the forecasting of constraints costs on an all island basis, the provision of an estimation of the market operator costs and the determination of the requirement for, and level of, any additional costs, including any need for additional working capital for the TSO as a result of the changes to the market arrangements. In addition the Commission should bear in mind that as a number of these costs relate to the SMO as opposed to the TSO business they are a matter to be addressed not solely to ESBNG but also SONI and will subject to approval via governance arrangements on an all island basis. ESBNG is not aware that any process has yet commenced whereby the two regulators have sought to address these issues with ESBNG/SONI and which would facilitate the production of forecasts consistent with the timetable set out in the paper. ESBNG therefore wishes to draw the Commission’s attention to the fact that the Commission should not be working on the assumption that a robust forecast of these cost elements will be available to it by May/ June 2006, or necessarily in time for a the production of a single tariff for 2007 taking into account these elements in autumn 2006. As the Commission is aware this in no way precludes the Commission from setting a PES tariff for 2007 in 2006 – either for the whole calendar year, or in two parts - simply that given the inability to predict these costs with any suitable degree of accuracy consistent with the setting of that tariff would result in some level of discrepancy, and therefore market distortion, in the costs faced by independent suppliers, and by PES.

ESBNG looks forward to the Commission’s decision on the manner in which PES tariffs will be determined in 2007 and ensures the Commission it will endeavour to provide it with whatever information and support it can in a timely fashion.

Yours sincerely

Bill Thompson
Economist, Transmission Pricing
ESB National Grid