



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Electricity Allowed Revenue and Tariff Draft  
Determinations for the period**

**1<sup>st</sup> November 2007 to 30<sup>th</sup> September 2008**

**Overview**

**CER/07/144**

**11<sup>th</sup> September 2007**

# **Contents**

- 1 Introduction..... 2
- 2 2007/08 Draft Electricity Charges ..... 3
  - 2.1 Draft PES Tariffs to apply from the start of the SEM ..... 3
  - 2.2 Transmission ..... 4
  - 2.3 System Market Operator Charges ..... 4
  - 2.4 Distribution ..... 5
  - 2.5 Supply ..... 5
  - 2.6 ESB Power Generation ..... 5

# 1 Introduction

Today (11<sup>th</sup> September 2007), the Commission for Energy Regulation publishes a number of important documents setting out the Commission's proposed determination on allowable revenues for the period from the start of the SEM (1<sup>st</sup> November 2007) to 30<sup>th</sup> September 2008 for each ESB's regulated business units, as well as EirGrid (the independent Transmission System Operator). Today, the Commission also publishes proposed determinations for tariffs relating to transmission and distribution. It is planned that proposed ESB (operating as Public Electricity Supplier) tariffs are published on Friday 14<sup>th</sup> September.

This document provides an overview of the key draft pricing decisions made by the Commission that impact on the level of draft tariffs charged by ESB (operating as Public Electricity Supplier or PES) to its customers. Some of these pricing decisions also impact on customers of other suppliers in the market.

Section 2 of this paper sets out:

- Proposed percentage change to ESB PES Tariffs charged to non-Large Energy User<sup>1</sup> (LEU) customer categories from the start of the SEM (1<sup>st</sup> November 2007);
- Impact of the SEM and wholesale fuel prices on electricity prices;
- 2007/08 Transmission Use of System revenue, charges;
- 2007/08 System Market Operator charges;
- 2007/08 Distribution Use of System revenue, charges;
- 2007/08 Supply Overhead costs; and
- ESB Power Generation revenue correction factors for 2007 and 2006.

Please note that the Commission's decision in relation to the ending of tariff regulation for large electricity users (further to its 8<sup>th</sup> September 2006 decision (CER/06/167) and recent consultation paper (CER/07/120) will be published on 14<sup>th</sup> September.

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<sup>1</sup> Large Energy User (LEU) customers are defined as those customers connected at the Medium Voltage or higher voltages.

## 2 2007/08 Draft Electricity Charges

### 2.1 Proposed PES Tariffs to apply from the start of the SEM

The Commission proposes to approve an average decrease in PES tariffs (for non-Large Energy Users) of 6.1%. Table 1 below set out the average decrease for each non-LEU customer category supplied by PES. Note that these are average decreases. Prices paid by individual PES customers will depend upon the size, consumption pattern and electrical location of the each customer.

**Table 1.** Average decreases in PES tariffs by customer category

<b>ESB PES Tariff Categories</b>	<b>Average PES Tariff Percentage Change</b>
Domestic	- 5.4%
Non-Domestic General Purpose	- 5.9%
Low Voltage Maximum Demand	- 10%
Public Lighting	-13.9%
<b>Overall Average</b>	<b>- 6.1%</b>

These tariffs reflect the costs incurred by PES of supplying electricity to Non-LEU final customers. They include the cost of procuring energy in the wholesale generation market, the cost of entering into hedging arrangements for these customers, transmitting and distributing electricity through the networks, PES's own supply business unit costs and Public Service Obligation costs. In 2008 the PSO charge is set to zero.

Please note that the **6.1%** average decrease relates to PES customers. Charges for customers of other suppliers are a matter for these suppliers. The Commission is not in a position to publish tariff impacts for customers of other suppliers in the market as has been suggested in some responses to previous consultation papers.

ESB Customer Supply will publish its full suite of tariffs on Friday, 14<sup>th</sup> September 2007.

The price reductions have been driven, in the main by lower gas prices offset somewhat by increases in oil and coal prices.

The reduction in electricity prices will coincide with the establishment of the Single Electricity Market (SEM) for the island of Ireland on 1st November 2007. The SEM introduces new trading rules and mechanisms for electricity generators and suppliers and has been designed to encourage the continued growth of competition in the electricity sector. The SEM will drive increased efficiencies in all electricity companies meaning that customers in all sectors of the market will reap the benefits of greater competition.

## **2.2 Transmission**

Based on its review of submissions from ESB and EirGrid, the Commission proposes to allow the recovery of €228.4 million for the transmission business for the period 1<sup>st</sup> January to 31<sup>st</sup> December 2008. This amount covers the costs of both EirGrid as transmission system operator and ESB Networks as transmission system owner. This results in an average decrease of 25% in TUoS charges (excluding the impact of the rebate provided to customers in 2007<sup>2</sup>). The decrease is primarily due to an over recovery in 2007 and the removal of constraints costs from the transmission revenue as and from 1<sup>st</sup> November 2007. The equivalent of constraint costs will be recovered via a separate System Market Operator 'Imperfections' charge in the Single Electricity Market or SEM.

TUoS demand tariffs applicable from 1st November 2007 to 30th September 2008 and generator tariffs from 1st November to 31st December 2007 are published today. All-island generator transmission tariffs and transmission loss adjustment factors (TLAFs), applicable from 1st January 2008, will be consulted on separately over the coming weeks.

Separate to the transmission allowed revenue the Commission proposes to allow a Capacity Margin Charge of €0.43/MWh. This represents an estimated €7.5 million associated with demand side management schemes administered by Eirgrid for the period 1<sup>st</sup> November 2007 to 30<sup>th</sup> September 2008.

For further information, please see:

*Draft Direction on allowable transmission revenue and the Transmission Use of System Charges: **CER/07/145***

## **2.3 System Market Operator Charges**

The All-Island Single Electricity Market (SEM) will be administered by a Single Market Operator (SMO), formed through a contractual joint venture between EirGrid and SONI.

From 1<sup>st</sup> November, the SMO will need to recover from market participants its approved operational costs, capital costs associated with the establishment of the SEM, constraint costs associated with the balancing of the transmission systems, and constraints costs associated with generator units which are being tested.

The Regulatory Authorities (CER and NIAUR) carried out an analysis of the various costs categories and decided to allow a total SMO revenue of €23.1m (to be recovered through the System Market Operator charges) and constraints costs of €112.6m (to be recovered through the Imperfections charge).

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<sup>2</sup> The rebate relates to the over-recovery in ESB PG's allowable costs and revenues in 2006

For further information, please see:

*Single Electricity Market SMO Revenue and Tariffs – Decision Paper*  
**AIP/SEM/07/455**

## **2.4 Distribution**

Based on its review of the ESB Networks (the Distribution System Operator) submission, the Commission proposes to allow the recovery of €627.2m in revenue for the 11 month period (1st November 2007 to 30th September 2008). This results in an 3.2% increase in Distribution Use of System (DUOS) charges. This increase is driven by the need for DSO to continue investing a significant amount in network development and renewal. In addition, the unprecedented level of new connections has increased DSO costs as new customers are only required to pay 50% of the total cost of connection directly with the remainder included in the DUoS charges.

For further information, please see:

*Proposed Determination of Distribution Allowed Revenues and Use of System Tariffs for ESB Networks: CER/07/146*  
*Schedule of Proposed Distribution Use of System Charges: CER/07/147*

## **2.5 Supply**

The Commission proposes to approve ESB Public Electricity Supplier ESB PES allowable revenue of €94.8 million for the 11-month period 1<sup>st</sup> November 2007 to 30<sup>th</sup> September 2008. The details of PES's allowable revenue are set out in the Commission's proposed direction.

For further information, please see:

*Draft Direction on PES allowable revenue CER/07/148*

## **2.6 ESB Power Generation**

The Commission has calculated an overrecovery of €26 million in ESB Power Generation allowable costs and revenues in 2007 until the start date of the Single Electricity Market. This has arisen as a result of adjustments from the actual outturn for 2006 and the revised forecast for 2007. The key drivers are a decrease in fuel costs and revised generation volumes.

For further information, please see:

*Draft Direction on ESB Power Generation Allowable Revenue CER/07/142*

The Commission proposes to 'rebate' this over recovery back to the market via a 0.10063 cent/kWh reduction for all demand purchased by a supplier at the trading point. The value of the reduction to a particular customer will depend upon the connection voltage for that customer. This rebate will be provided to all suppliers in the market to be passed through to their customers. The published PES tariffs automatically include this reduction. This proposal will be included in PES's retail tariff paper published on 14<sup>th</sup> September.