

RESPONSE TO PROPOSED RETAIL TARIFF CHANGES

ESBIE welcomes the opportunity to comment on the proposed changes to retail electricity tariffs as submitted by ESB Customer Supply. It is timely that the CER are reviewing retail market issues relating to tariffs and k-factors following the introduction of the new wholesale market arrangements last November. ESBIE believe that any decisions in respect of the retail market should be made in consideration of corresponding issues in Northern Ireland's retail electricity market. It is also appropriate that the following principles are applied:

- **Cost reflectivity.** Retail tariffs set by the CER continue to impose a cap on the price for electricity in certain sectors of the market. It is important therefore that the costs of supplying customers are reflected accurately within the tariffs, otherwise there is a real danger that retail competition will be undermined.
- **Transparency.** Electricity retailers have invested considerable sums of money in the retail infrastructure necessary to compete in the market. Continued transparency in tariff setting is an important tool to maintain confidence in the process employed.
- **Not undermine retail competition.** This is a wide-ranging principle that has many implications. The most tangible implication of this is that any k-factor for over or under recovery should not undermine retail competition. In this context ESBIE welcomes the announcement of the CER's proposed review of k-factors in Q3/Q4.
- **Not be overly complex.** To the extent that the above objectives are met, ESBIE believe that where a trade-off exists, a less complex approach is preferable to a more complex tariff structure.

ESBIE would like to draw attention to the following issues related to the proposed tariff changes.

LV STOD Tariff

ESBIE consider that a tariff that is based on a profile of a customer's consumption can be used to reflect the costs of supply more accurately than a tariff that is based on a flat rate and a maximum-demand component. To the extent that this brings the tariff more in line with underlying costs components ESBIE welcome this change.

Amalgamation of GP Tariff blocks

The application of a lower rate for all electricity consumed in excess of a certain amount, does not appear to reflect the costs of supplying a customer. Again, this change appears to bring the tariff more in line with the underlying cost components and so ESBIE supports its introduction.

Pool Price Pass-thru Tariff (PPPT)

ESB Customer Supply offers a PPPT to large energy users. This PPPT is based on the ex-ante prices from the wholesale electricity market. While recognising that there are benefits to providing customers with a price to which they can respond, ESBIE has expressed concern in the past that this approach may lead to market distortion. This is because suppliers are actually charged at a price which is set after energy is consumed. If the difference between ex-ante and ex-post prices trended towards under-recovery or over-recovery, there would be an unnecessary distortion of this market segment. ESB Customer Supply have indicated that this is not the case. In this context ESBIE support a move towards making the tariffs applied to individual customers more cost-reflective but caution that this tariff should be closely monitored.

Renewable Tariff

ESB Customer Supply has proposed the introduction of a renewable tariff. To date the cost of providing renewable energy to customers has been in excess of the cost of supplying energy produced by thermal generation. The ability of a domestic customer to access a renewable tariff will increase the profile of environmental issues however it is important that the tariffs should at a minimum, reflect any increased costs associated with renewable energy. The recent increase in demand for renewable products has led to a premium for renewable energy. The supply of a renewable product by ESB Customer Supply should not undermine the market premium that is commanded for such products – to do so would also be damaging to the value of renewable energy projects. Finally, it is important that ESB Customer Supply publish the methodology that they will use for tracking the amount of green energy that they purchase and supply to consumers. This is particularly important since the fuel-tracking methodology to be applied in the SEM may not be in operation when the tariff comes into operation.

Conclusion

There are many benefits to the tariff changes proposed by ESB Customer Supply, however all these changes should only be considered in the context of a move towards a more competitive market that is influenced less and less by the application of k-factors. These changes should also be carefully considered in the context of similar reviews in Northern Ireland.