



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

ESB PES (Public Electricity Supplier)

Tariff Structures for 2008 & 2009

DECISION

CER/08/088

22nd May 2008

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1 Executive Summary

ESB Customer Supply business unit is licensed as the Public Electricity Supplier ('PES'). PES offers tariffs to customers that do not purchase electricity from other suppliers in the market. These tariffs include the cost of procuring energy from the Single Electricity Market (SEM), transmitting and distributing electricity through the networks and PES's own approved business unit costs.

The Commission for Energy Regulation ("the Commission") reviews submissions from PES on both the structure and level of tariffs. The Commission is required to approve the tariff structures and prices charged to final customers by PES and will do so provided the tariffs are cost reflective, efficient, transparent, non-discriminatory and support retail competition.

This document contains details of the proposed changes from PES, a summary of the responses to the consultation and the decisions taken by the Commission in relation to each of the tariff structure changes proposed by PES. The Commission has approved one out of seven tariff proposals from PES for implementation in the 2008/09 tariff year.¹ The Commission approves the:-

- elimination of the 'Metered Public Lighting' tariff and the transfer of these customers to the General Purpose tariff.

The Commission has approved five of the proposals in principle but will require further detailed information prior to implementation in the 2008/2009 tariff year. These include the following:-

- introduction of a STOD tariff for LVMD and LV LLF customers with QH metering contingent on a satisfactory customer impact analysis - required by 14th July 2008
- removal of the second block structure in the GP tariff to be implemented over 3 years (transitional arrangements to be agreed, transitional proposal required by 6th June 2008)
- review the Nightsaver tariff (further information required by 6th June 2008)
- introduction of a PES Green tariff (further information required by 6th June 2008)
- evaluation of the status of customers connected at MV or 38kV but billed on the GP tariff (implementation of outcome of evaluation contingent on a satisfactory customer impact analysis - required by 14th July 2008)

The Commission requires PES to provide further information on the proposal to transfer all LEU customers onto the Individual PPPT and the justification for the removal of the Group PPPT by 6th June 2008.

¹ CER/08/046A 27th March 2008

2 Background

2.1 Consultation Background

On 27th March 2008, the Commission published a consultation document (CER/08/046) on the proposed changes to electricity retail tariff structures for 2008/09 as submitted by PES (Public Electricity Supplier). On the 11th April 2008 the Commission facilitated an industry presentation where PES set out its proposed structural changes and answered questions from market participants.

The period of public consultation for the tariff proposals ended on the 15th April 2008. The Commission received six responses to the consultation. These responses, which are published along with this paper on the Commission website, were received from the following parties:

- Airtricity
- Bord Gáis
- Eirgrid
- ESB Independent Energy
- Irish Estates (Management) Ltd
- Viridian Power and Energy

Section 3 of this document reviews the proposed tariff structure revisions, summaries the details of the comments received in response to the consultation paper and indicates the Commission's Decision. In reaching its conclusion the Commission has taken into account the various comments expressed in the formal and informal representations that have been received from interested parties.

2.2 Legal Powers

The functions of the Commission in relation to electricity are set down in section 9 of the Electricity Regulation Act 1999 ("the 1999 Act"), as amended by subsequent Statutory Instruments. National regulatory authorities have been given additional functions under EU Directive 2003/54/EC. Regulation 3 of the recently enacted SI 60 (European Communities (Internal Market in Electricity) Regulations 2005) provides for the amendment of Section 9 of the 1999 Act for the purposes of assigning additional functions to the Commission.

In particular, Regulation 3 of SI 60 requires the Commission to consider proposals from ESB operating as Public Electricity Supplier in relation to tariffs and their underlying costs. Regulation 3 also provides the Commission with the power, following an examination of proposals from PES in relation to underlying tariff costs, to issue directions to PES in relation to such costs underlying any charge to final customers.

3 The Commission's Decision

The Commission has decided to approve in principle six of the seven tariff structure proposals submitted by PES to the Commission for 2008/09.² This section sets out the detail of PES's tariff proposals, the respondents' comments and the rationale behind the Commission's decision on each of these proposals.

3.1 STOD tariff for LVMD and LV LLF customers

3.1.1 PES Proposal

PES propose to introduce a 7-band Seasonal Time of Day (STOD) tariff structure to Low Voltage Maximum Demand (LVMD) and Low Load Factor (LLF) customers with Quarter Hourly (QH) metering using the same STOD structure as offered by PES to Large Energy Users in 2007.

3.1.2 Respondents' Comments

The majority of respondents were in support of this proposal as it would bring the LVMD tariff further into line with the underlying cost components. As was the case with all the tariff proposals, most respondents indicated that more detailed information or analysis on the proposal would be useful in fully assessing the impact of the proposal. One respondent noted that while the proposal was a positive development, it would be important for ESB Networks to install QH metering to all LVMD and LVLLF customers prior to implementation. One respondent questioned if the existing Maximum Demand structure would continue for Non QH customers in this group.

Only one respondent was opposed to the proposal. This respondent questioned whether cost recovery via a STOD tariff format would provide more effective signals than the Maximum Demand tariff format currently in place. This respondent also noted that the addition of another tariff would be detrimental to overall transparency.

3.1.3 Commission's Decision

The Commission considers that the STOD tariff, by design, gives a clearer and more consistent price signal for energy costs than the MD tariff. The maximum demand tariffs are structured to reflect not only the amount and rate of electricity use but also the time of day it is used. However the MD tariff only inhibits peak reduction once a high peak mark has been reached and does not encourage consistent energy efficiency throughout the day.

The proposed tariff is a fixed group STOD rate that will only apply to customers with QH metering, which is approximately 30% of the LVMD tariff group. The existing Maximum Demand tariff will remain in place for Non QH LVMD customers.

² CER/08/046A 27th March 2008

The Commission is minded to approve the proposal to introduce the 7-band STOD tariff structure for LVMD and LLF customers with QH metering. However the Commission requires a detailed customer impact analysis by 14th July 2008 to inform the Commission's decision on this proposal.

3.2 General Purpose tariffs (24 hour & Nightsaver)

3.2.1 PES Proposal

PES proposes to amend the structure of its General Purpose (GP) tariff so as to remove the 2-block structure that applies to the day energy rates in this tariff.

3.2.2 Respondents' Comments

The majority of respondents agreed with the proposal but requested that further detailed information should be provided in advance of implementation.

One respondent commented that the removal of the Block 2 price would have a negligible effect on the Block 1 price as the majority of customers do not trigger a Band 2 tariff. Another respondent, while agreeing with the proposal in principle, expressed concern about the impact on independent suppliers. The respondent noted that the single flat tariff structure should be phased in over two years, suggesting progressive movements in the Block 2 threshold and a corresponding reduction in the Block 1 premium. This respondent emphasised that the implementation of this proposal should only be considered in a context where the influence of a correction (k-factor) had been removed from the PES tariffs.

Only one respondent completely opposed the proposal, stating that that the current two block structure tariff is more cost reflective than the single usage rate and that the introduction of a single usage rate could create an unfair cross subsidy from larger to smaller customers where there are fixed costs.

3.2.3 Commission's Decision

The Commission does not accept the view that the current two block structure is more cost reflective than a single flat tariff as under the SEM there are no economies of scale to be found in the costs of procuring wholesale electricity from the pool. The current tariff structure rewards customers whose consumption extends into Block 2 where customers face a reduced price if they consume more electricity. As the second block is cheaper than the first block, customers have no incentive to behave in a more efficient manner. The Commission understands that this is currently in the region of 14,000 customers, approximately 10% of the PES GP customer base.

The Commission supports the structural change that is proposed by PES in principle, as retaining the second block runs counter to the aim of promoting energy efficiency. The proposed changes will ensure that the tariffs become more reflective of the costs of procuring wholesale energy supplies from the pool. However the Commission is mindful of the concerns expressed by suppliers regarding the timing of the implementation of changes to this tariff. Therefore the Commission has decided that PES's proposed changes will be implemented over a three year

transitional period. This means that the proposal will be fully implemented in the tariff year 2010/2011, coincident with the end of the PES 5 year price control. The Commission will require PES to provide a transitional proposal to cover the intervening period by 6th June 2008.

3.3 PPPT tariff for Large Energy Users

3.3.1 PES Proposal

PES proposes that all Large Energy Users (LEUs) are placed on an Individual Pool Price Pass Through (PPPT) tariff.

3.3.2 Respondents' Comments

Four out of the six respondents were in support of this proposal, indicating that it would lead to increased transparency and cost reflectivity. One respondent, while agreeing with the change, added that the tariff should be monitored to ensure that the ex-ante and ex-post prices correlate. One respondent refuted the arguments set out by PES in support of the proposal; this respondent remarked that the 2% difference between the Group and Individual PPPT is a significant sum and should not be dismissed. They also noted that the Group PPPT should remain due to the obvious customer demand for it. In the interests of transparency, this respondent also suggested that consolidated pool prices and supplier charges for LEU's be made available to customers for comparison.

3.3.3 Commission's Decision

The Commission notes that the Pool Price Pass Through tariffs provide customers with a clear signal of the pool price and thus an opportunity to respond to the pricing message. This encourages customers to use electricity efficiently.

The Individual PPPT option is likely to appeal to LEUs who can manage their demand. On the other hand, the Group PPPT was designed and implemented to offer customers with less flexibility a degree of protection from pool spikes.

From 1st March 2008, customers on a 7-rate STOD tariff could elect to be billed on the Individual or Group PPPT tariff. To date approximately 10% of PES LEU customers have chosen to be billed on the Individual tariff. The Commission takes the view that there is substantial demand for the Group tariff arrangement.

The Commission notes that PES's analysis, to date, illustrates that Group PPPT customers have experienced less than a 2% difference in pool prices to Individual PPPT customers. However, the Commission believes that it may be premature to remove the Group PPPT tariff option at this early stage of market experience. The Commission requires PES to provide further information on the justification for the removal of the Group PPPT by 6th June 2008.

3.4 ‘Metered Public Lighting’ tariff

3.4.1 PES Proposal

PES proposes to eliminate the metered public lighting tariff and transfer these customers to the General Purpose (GP) rate.

3.4.2 Respondents’ Comments

All respondents were in support of this proposal. One respondent further raised a question as to what more could be done for all customers who are currently unmetered.

Another respondent, while agreeing that the proposal is appropriate, questioned why the load shape of the GP tariff is more applicable for the settlement of lighting demand, than one that has been derived from the 24hr public lighting profile. This respondent suggested that all public lighting loads should be aggregated on the basis of a profile derived from the unmetered settlement profile and suggested that PES’s proposal should be reworked to produce a metered lighting tariff based on the aggregation principles established for the retail market design.

3.4.3 Commission’s Decision

In light of the comments from respondents the Commission approves the proposal to transfer the 28 customers on the metered public lighting tariff to the General Purpose rate is appropriate in line with new ESB Network rules.

In response to the comment from one respondent on what was been done for unmetered customers, the Commission notes that there is currently an open consultation which will review the arrangements for Public Lighting and Unmetered Supply ³.

3.5 Nightsaver tariff

3.5.1 PES Proposal

PES proposes to review the structure of the Nightsaver cost components for the 2008/09 tariff year.

3.5.2 Respondents’ Comments

The majority of respondents were not in favour of this proposal. While one respondent remarked that the reasoning for the review was inadequate, a further two respondents requested that more information as to the exact nature of the proposed review be provided.

One respondent was opposed to the proposal due to the frequent number of reviews that have taken place in recent years. This respondent suggested that PES be restricted from making further structural changes for at least three years with three

³ Public Lighting and Unmetered Supply CER/08/070

year intervals thereafter in the interest of fairness to independent suppliers and to facilitate supplier switching and the development of competition.

If the proposal was approved, one respondent suggested that it be as part of a broader review of tariff structures. Another respondent noted that any changes to the Nightsaver should have to be phased in over a two year period, as per their proposal on the GP tariff, in order to support competition and minimise the impact on independent suppliers.

3.5.3 Commission's Decision

The Commission notes that the structure of the Nightsaver tariff was reviewed in 2007. In its Decision Paper on tariffs to apply from 1st November 2007⁴, the Commission agreed with the PES proposal that it was no longer appropriate for the day rate in the Nightsaver (2-rate) tariffs to be equated with the energy rate in the single domestic tariffs. Forecasts of the half hourly prices in the Single Electricity Market did not support this pricing relationship.

The Commission notes that PES has not, to date, provided sufficient detail on the scope of the proposed review of the Nightsaver tariff for 2008. In order to give customers and other suppliers some regulatory certainty and to provide the Commission with sufficient time to review and issue any decisions, PES has been requested to submit any tariff proposals before the 6th June 2008.

3.6 Green/Renewable tariff

3.6.1 PES Proposal

PES proposes to review the potential for the introduction of a green tariff.

3.6.2 Respondents' Comments

Most of the respondents were in support of this proposal but requested that more information be provided on the details of the green tariff to be offered; input costs, energy sourcing and the pricing methodology. Two respondents remarked that it is important that the green tariff reflects the current and prospective cost of providing electricity from renewable sources with one respondent expressing that this higher market cost be paid in full by PES and should not be supported by the Public Service Obligation.

One respondent did not support the proposal for the introduction of a green tariff on the grounds that PES had not provided sufficient details. The respondent also noted that it would be unfair for PES to offer a green tariff to its customers where PES was counterparty to Alternative Energy Requirement (AER) contracts. These contracts are underpinned by a Public Service Obligation levy which is payable by all electricity customers.

⁴ CER/07/191

3.6.3 Commission's Decision

The Commission welcomes with interest the proposal from PES to introduce a green/renewable tariff in response to increased consumer awareness and demand for products produced from renewable energy resources. However the Commission notes the concerns of the respondents about the lack of information on the green tariffs to be offered; what category of customers they would be offered to, sources of the renewable energy and the pricing methodology. As before, PES is requested to submit detailed proposals by 6th June for any tariffs it wishes to offer customers in October 2008. The Commission will ensure that sufficient time is allowed to review any such proposal in order to issue decisions which provide regulatory certainty for customers and other suppliers.

3.7 MV & 38kV connected customers on the GP tariff

3.7.1 PES Proposal

PES proposes to evaluate the status of 78 customers connected at Medium Voltage (MV) or 38kV but billed on the General Purpose tariff, and assess the appropriateness of PPPT to meet many of these customers demand.

3.7.2 Respondents' Comments

The majority of respondents were in support of this proposal given the changes in the Network charges for embedded generators and also in the broader interests of improving transparency.

One respondent was opposed to the proposal on the grounds that the proposed evaluation could lead to changes which would be detrimental to the MV customer group. This respondent called for information on consolidated group prices and service capacity charges to be provided, so that affected customers can determine the need for such an evaluation.

3.7.3 Commission's Decision

The Commission notes the broad support for this proposal and will await the outcome of the evaluation. However the Commission requires a detailed proposal on the customer impacts that may arise from this evaluation by 14th July in order to inform the Commission's decision on this proposal.

3.8 Other Comments

In addition to comments on the PES tariff proposals, some respondents offered further suggestions that they felt should be considered in order to facilitate greater transparency and competition in the retail market. One respondent emphasised that any proposed structural changes in the tariffs should be contingent on the removal of the PES k-factor prior to the implementation of these changes, so as not to undermine retail competition. Another respondent commented that the introduction of additional PES tariffs could reduce transparency in the retail market.

The Commission notes the concerns of some respondents regarding the operation of multiple PES tariffs in the retail market. Many of these tariff structures are historic

and do not work effectively in the new Single Electricity Market. The Commission plans to undertake a comprehensive Tariff Structure Review, jointly with NIAUR, later this year. In response to the comment about the correction factor, the Commission, as part of its agreed work plan with NIAUR, has decided to review the use of correction factors in retail tariffs in Q3/Q4 of this year. The Commission has published a direction to PES regarding the use of correction factors for the tariff year 2008/2009⁵.

⁵ Treatment of k-factors in Retail Tariffs-Letter to ESB CS CER08/049