



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**Proposed Determination of Distribution Allowed
Revenues, Use of System Tariffs and Distribution Loss
Adjustment Factors for ESB Networks**

Consultation Paper

**20th June 2008
CER/08/095**

1. Introduction

1.1. The Commission for Energy Regulation

The Commission for Energy Regulation (‘the Commission’) is the independent body responsible for overseeing the regulation of Ireland's electricity and gas sector's. The Commission was initially established and granted regulatory powers over the electricity market under the Electricity Regulation Act, 1999. The enactment of the Gas (Interim) (Regulation) Act, 2002 expanded the Commission's jurisdiction to include regulation of the natural gas market, while the Energy (Miscellaneous Provisions) Act 2006 granted the Commission additional powers in relation to gas and electricity safety. The Commission is working to ensure that consumers benefit from regulation and the introduction of competition in the energy sector.

1.2. Purpose of this paper

This Paper outlines and invites comments on the Commission's proposals on:

- Distribution System Operator (DSO) allowed revenue for the 2009 calendar year;
- Distribution Use of System (DUoS) tariffs for the 12 month period from 1st October 2008 to 30th September 2009; and,
- Distribution Loss Adjustment Factors (DLAFs) for the 12 month period from 1st October 2008 to 30th September 2009.

Comments are invited as detailed in Section 1.5.

1.3. Background

1.3.1. DSO revenue control for 2006 to 2010

In September 2005 the Commission published its decision on the allowable revenues that the DSO could earn over the period 2006 to 2010 ([CER/05/138](#))¹. The allowed revenue was set for each calendar year of the period, as shown in the table below in 2004 terms.

(2004 monies, €m)	2006	2007	2008	2009	2010
DSO Allowed Revenues	535.0	567.4	588.7	601.8	615.4

Table 1: DSO Allowed Revenues 2006-2010

The distribution revenue decision for 2006-2010 also set out the method by which the allowed revenues would be updated annually in order to keep the DSO's revenues in line with the allowed costs.

Following this method the DSO revenues for 2006, 2007 and 2008 were updated, consulted upon and set by the Commission at €561.5m¹, €634.9m²

¹ CER/05/138, [www.cer.ie](#)

² CER/06/197, [www.cer.ie](#)

and €698.8m³ respectively. DUoS tariffs were then calculated from the allowed revenues.

For 2006 (and previous years), DUoS tariffs were set on a calendar year basis. However, this practice was changed in 2007 as detailed below.

1.3.2. The length of the tariff period

In 2007 the Commission decided that DUoS tariffs would be put in place for an 11 month tariff period from 1st November 2007 to 30th September 2008 and on a 12 month basis thereafter. The reasons behind this decision to change the tariff period to a non-calendar-year basis are documented in the Commission's decision document AIP/SEM/07/93⁴.

The DUoS tariffs proposed in this paper are for the 12 month period from 1st October 2008 to 30th September 2009.

1.3.3. Calculation of DUoS tariffs

For the tariff period from 1st October 2008 to 30th September 2009, the DUoS tariffs will be set to recover revenue for the 2008 and 2009 calendar years, scaled to reflect the MWh figures that relate to the tariff period.

This is consistent with the methodology used for the previous tariff period. Section 3 provides detail on the DUoS tariffs that are proposed for this period.

1.4. Structure of this paper

This paper is structured in the following manner:

- Section 1 provides an introduction. It details the purpose of, and background to, this consultation paper. Instructions are also provided on how to respond to this paper;
- Section 2 provides detail on the calculation of proposed DSO allowed revenue for the 2009 calendar year. Information is also provided on the revenue that had previously been set for the 2008 calendar year;
- Section 3 details how the proposed DUoS tariffs were calculated for the 12 month period from 1st October 2008 to 30th September 2009;
- Section 4 provides detail on the proposed DLAFs for the 12 month period from 1st October 2008 to 30th September 2009;
- Section 5 provides a brief summary.

³ CER/07/186, www.cer.ie

⁴ AIP/SEM/07/93, www.allislandproject.org

1.5. Responding to this paper

Comments on this proposed determination should be submitted to John Orme, preferably in electronic form by 5pm on the 18th July 2008 at:

distribution@cer.ie

or by post to:

John Orme
Electricity Distribution
Consultation CER/08/095
Commission for Energy Regulation,
Belgard Square North,
Tallaght,
Dublin 24

Comments received may be published on the Commission's website. With this in mind, any points that are deemed confidential should be marked as such and where possible placed in an annex to the response.

2. Application of Revenue Control

In this paper the Commission proposes that DSO revenue for the 2009 calendar year be set at €737.0m. This is based on a revenue submission provided by the DSO and the calculations behind this figure are explained below.

2.1. Revenue Control Formula

The revenue control formula, which is used to keep the DSO's revenues in line with allowed costs, is set out in detail in Section 9 of [CER/05/138](#). Very simply, the revenue control formula takes the 'base' allowed revenue (in 2004 monies) as set out in Section 1.3.1 above, inflates that revenue into nominal figures, and adjusts it for specific revenue parameters, so called K factors. The K factors adjust for, among other things:

- changes between forecast and actual inflation;
- changes between forecast and actual customer numbers; and,
- revenue allowances/penalties under incentive mechanisms which are designed to improve various aspects of system and customer call centre performance.

The following section summarises the implementation of the revenue formula.

2.2. Adjustments to Revenue

2.2.1. Revenue for 2008 and 2009 calendar years

The below table summarises the operation of the revenue control formula and compares the nominal increases in revenue between the 2008 and 2009 calendar years.

	Revenues (Nominal, €m)
Allowed Revenue 2008	698.8
Base Allowed Revenue 2009	711.2
Allowed Revenue 2009 (incl. k factors)	737.0

Table 2: Allowed Revenues for 2008 and 2009 calendar years

The 'Allowed Revenue 2008' as shown above reflects the base revenue for the 2008 calendar year (€588.7m in 2004 prices) inflated to 2008 prices. This, along with figures for the last two months of 2007, is the allowed revenue upon which DUoS tariffs for the period 1st November 2007 to 30th September 2008 are based. This figure was consulted upon and published in 2007³.

The 'Base Allowed Revenue 2009' reflects the base revenue for the 2009 calendar year (€601.8m in 2004 prices) inflated to 2009 prices. The 'Allowed Revenue 2009' shows the final allowed revenue for the 2009 calendar year, that is, the base revenue adjusted for k factors. The k factor adjustment is explained below.

2.2.2. K factor adjustment to 2009 revenue

The following table provides detail on the k factor adjustments that are proposed for the 2009 allowed revenue.

	Total k Factors (€m, 2009 monies)
Higher Customer Connection Costs	+2.6
Lower Line Diversions Costs	-1.5
Incentives	+11.3
Pensions Allowance	+7.5
Other	+6.0
Total	25.8

Table 3: k factor adjustments

A forecast number of customer connections and line diversions were assumed for 2009 when the base allowed revenue was being calculated as part of the 5-year revenue control. However, the revised forecast for 2009 shows that there will be more new customer connections and less line diversions than previously forecasted. The k factor will adjust the 2009 revenue to allow for these changes, as outlined in the 2006-2011 revenue determination. There is a total adjustment of +€1.1m for these two factors.

As part of the 2006-2011 revenue determination incentive mechanisms were agreed with the DSO. Using that methodology it is proposed to allow €11.3m as part of this k factor adjustment for 2009.

The above table also includes a pension's allowance of €7.5m. This was calculated using a methodology previously approved by the Commission.

Other factors that increase or decrease the allowed revenue include:

- A refund from the DSO of €9.9m due to property sales. The methodology behind this refund was agreed as part of the decision on 2006-2010 allowed revenue;
- Allowances of €9.4m for differences between forecast and actual inflationary and MWh figures;
- Adjustments which allowed for errors made during previous years' revenue determinations (+€7.2m). This adjustment ensures that the allowance is as per the decision made as part of the 2006-2010 revenue determination;
- Additional costs are included to allow for requirements imposed by the new Single Electricity Market (+€0.5m);
- Interest adjustments (+€1.1m) relating to under- or over-recoveries. The methodology behind this adjustment was agreed as part of the decision on 2006-2010 allowed revenue; and,
- Other pass-through costs (-€2.3m).

3. Distribution Use of System Tariffs

The proposed DUoS tariffs for 1st October 2008 to 30th September 2009 were calculated to allow the recovery of revenue for the 2008 and 2009 calendar years, scaled to reflect the MWhs figures that relate to the tariff period.

The allowed revenue for the 2008 calendar year (€698.8m) was approved as part of last years revenue determination³, while the allowed revenue for the 2009 calendar year (€737.0m) is proposed in this consultation paper.

The DSO's Draft Schedule of DUoS Tariffs was calculated using this methodology. It is published alongside this paper and sets out the resulting DUoS tariffs. The draft schedule of DUoS tariffs also provides additional clarification (relative to the schedule for the previous year) on the application of some tariff groups, although the actual application itself has not changed.

4. Distribution Loss Adjustment Factors

The Commission has also published proposals alongside this paper on the Distribution Loss Adjustment Factors (DLAFs) to apply from 1st October 2008 to 30th September 2009.

5. Summary

This consultation paper outlines the Commissions proposals on:

- DSO allowed revenue for the 2009 calendar year;
- DUoS tariffs for the 1st October 2008 to 30th September 2009 tariff period; and,
- DLAFs for the 1st October 2008 to 30th September 2009 tariff period.

Comments are invited on all of the above by 18th July 2008 as detailed in Section 1.5.