Airtricity Response to

Proposed Determination of Transmission Allowed Revenue and Use of System Tariffs

(Consultation CER-08-094)

04 July 2008
Introduction
Airtricity notes the Commission’s proposals for TAO and TSO allowed revenues for 2008/09. We also note the success of the Commission’s efforts to mitigate rising constraint costs in 2007. In responding to this consultation, we accept that the underlying costs are fixed for the period of the price control; our comments address only the significant forecast factors.

Major assumptions
There are three key forecast factors that will drive revenue recovery and Transmission tariffs for 2008/09;

- inflation
- sales growth, and
- 2007/08 outturn

While the last issue is not discussed in the consultation, we are concerned that the emerging economic slowdown may well result in lower than expected electricity sales and result in a revenue shortfall – some of which may be recoverable in 2008/09.

Inflation
Inflation adjustment of underlying revenue has increased 2009 base revenue by €48m over the 5 years since 2004, which is by no means trivial. While the drop to 2.2% is in line with the Department of Finance Pre-Budget Estimates, these were published in October 2007 since when economic performance has weakened significantly and fuel price escalation has exerted significant price pressure across the economy.

We believe the Commission should explore the impact of a range of inflation scenarios and examine options to smooth revenue recovery, particularly if higher inflation is combined with a decline in sales.

Sales growth
The differential between revenue increase and expected tariff increase implies an expected kWh sales growth of some 4.5%. In adverse economic conditions, it is more likely that consumption of
electricity will either remain flat, or decline. In such circumstances material under-recovery of 2009 revenue is likely to overhang tariffs for a number of years to come.

We believe the Commission should explore the impact of a range of inflation and sales scenarios on recovery of allowed revenue and examine options for smoothing recovery over different time horizons. Given the long term National economic benefit of a robust Grid infrastructure there is, perhaps a case for a proportion of the necessary investment to be provided from central taxation resources. There is

**Summary**

Constraining Transmission tariffs to just over 11% for 2008/09 is dependent on achievement of forecast sales growth in an environment of relatively low inflation. Given the material undershoot in taxation revenue for the first half of 2008, it is likely that electricity consumption and Transmission revenues will have underperformed against budget in 2007/08 and are likely also to do so in the coming year.

We believe the Commission should re-examine the basis of these two key assumptions underpinning Transmission revenue determination for 2008/09 and simultaneously examine options for smoothing revenue recovery over a period likely to capture the eventual upswing of the economic cycle.