Dear John,

PROPOSED DETERMINATION OF TRANSMISSION ALLOWED REVENUE AND USE OF SYSTEM TARIFFS

Thank you for the opportunity to comment on the above paper.

Without access to the underlying inputs/data, it is impossible for VPE to make any definitive comment or challenge. We therefore limit our response to a number of key observations against which we would appreciate further clarification.

These are as follows:

- **Incentives** - as part of the 2006-2010 Transmission Price Control, the Commission confirmed its intention to apply appropriate incentives that were “challenging but realistic”. Aside from the reduction on the outturn for 2007 constraint costs (€35.2m reduction), we are struggling to identify how the commitment to drive Opex and Capex efficiencies through the use of an “X” factor has directly translated into other material savings.

  The Commission has forecast an increase of 11.6% in the average unit transmission tariff for 2008/09, which does not seem to reflect the above efficiency objective. When we consider the effects on the LEU customer, indicating an increase in excess of 25%, it seems even more difficult to rationalise. We would therefore appreciate a better understanding how the TSO and TAO will be incentivised to drive down costs, and the affect of tariff changes upon different customer classes.

- **Fibre Revenue** - applying an annual charge based on a fixed percentage of ESB Telecom’s fibre revenue has resulted in a revenue drop of €0.768. Notwithstanding this effect, we question whether this is the right approach. This method appears to subsidise ESB Telecoms’ business plan from the TAO revenues – this cannot be right and warrants further scrutiny.
• **Ancilliary Services** – we note that €42.76m has been allowed for in the 2006-2010 price control and that this will need to be reviewed again following changes to the payment structure and rates taking place under the auspices of the all-island harmonisation of ancillary services under SEM. This is already out of date and warrants immediate attention, noting the poor performance to date of some plant, and the need to respond to greater renewable connection to the network.

• **Shared Services** – to what extent are the shared Corporate Services of ESBIE appropriately apportioned and therefore truly cost reflective? We are concerned the allowances apportioned to ESBIE may be too low.

• **North/South Interconnector** – to the extent there is a new interconnector, we are seeking clarity on the charging arrangements. Since this is not considered within the context of this present consultation on Allowed Revenue, in the interest of market transparency we assume there will be a separate consultation – confirmation on this point would be appreciated.

• **Overhead Power Lines vs Underground Cable** – we are aware of EirGrid’s preference for overhead power lines (more reliable and cost effective). Indeed, a study for EirGrid’s Meath/Cavan and Cavan/Tyrone projects established underground cables to be as much as 8.5 times more expensive. In principle, we support measures that are directly targeted at costs and in the light of EirGrid’s findings, the preference for overhead power lines seems sensible. However, it is not clear to what extent the allowed revenues cater for an appropriate mix, noting the lower cost preference for Overhead Power Lines. Further clarification would be appreciated.

We look forward to further clarification on the points we have noted above, and please do not hesitate to contact us if we can help further.

Yours sincerely

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