Direction to ESB PES on Tariffs to apply from 1st October 2009 to 30th September 2010

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Abstract:

This paper sets out the Commission's decision with respect to electricity retail tariffs, from the period 1st October 2009 – 30th September 2010. The Commission's decision will result in an average decrease of approximately 0.2% in the final tariff. The breakdown on bill impacts for various categories of customers is as follows; Domestic customers (typical household) 0.0%, Small business customers (GP) -0.4%, Medium business customers (LVMD) -5.5%. Consequently, the majority of customers will either incur no increase or a small decrease in their final electricity bill.

Target Audience:

This decision paper is for the attention of members of the public, the energy industry, customers and all interested parties.

Related Documents:

- CER/09/146 - Decision Paper on 2010 Revenue DUoS tariffs and DLAFs
- CER/09/152 - Decision Paper on ESB PES Allowed Costs for 2009/10
- CER/09/140 - 2010 Transmission Revenue Decision Paper
- CER/09/142 - CER WPDRS Powersave Consultation Paper CER/09/141 – Bill impacts of LEU customer credits to apply from 1st October 2009
- CER/09/125 - CER Consultation Paper on ESB Customer Supply Proposed Tariffs for 1st October 2009-30th September 2010
- CER/09/128 - ESB Tariff Methodology Statement for the tariff period 1st October 2009-30th September 2010

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EXECUTIVE SUMMARY

The Commission for Energy Regulation has approved the regulated tariffs of ESB Customer Supply, the Public Electricity Supplier, to apply from 1st October 2009 – 30th September 2010. This decision will result in an average reduction of 0.2% for all regulated categories of customers.

The regulated retail tariff year was aligned as an annual review for the public electricity suppliers in both the Republic of Ireland and Northern Ireland from 1st October – 30th September. However, the dramatic increases in fuel prices in 2008 meant that the Commission undertook a number of tariff reviews. An Interim review in July 2008 resulted in an average increase in regulated tariffs of 17.5% and in December 2008 an average decrease of less than 1% in the final retail tariffs. The December review took into account falling forward fuel prices at that time and also the €315.4m ESB rebate and an €87m PSO related rebate which was returned to all customers over the 9 month from 1st January 2009 – 30th October 2009.

In April 2009, in light of the worldwide economic recession and the difficult economic circumstances facing Irish consumers, the Commission issued a Direction to ESB Networks to re-profile approximately €120m of networks revenue. This action effectively reduced retail tariffs to all customers by approximately 10.3%. This decision was taken to bring forward anticipated reductions, to benefit all consumers, on the basis of forward fuel prices at that time. The Commission noted that in bringing forward the 10.3% price reduction, to apply from the 1st May 2009, there was likely to be no scope to reduce regulated prices any further from October 2009.

This has proved to be the case for domestic consumers, where many households will see no net change to the average annual bill. However all domestic customers will benefit from a 3.1% drop in unit rates and therefore customers who are supplied by independent suppliers currently discounting off the ESB Customer Supply regulated unit rates will also benefit from this decrease.

Smaller 'general purpose' business customers will see a small reduction of 0.4% on average, while larger low voltage businesses, with a maximum demand connection will benefit on average from a more significant 5.5% reduction. This differential between the customer groups is predominately attributed to the consumption profile of the different customer groups and the proportion of a customer's tariff that is derived from the wholesale cost of energy.

ESB Customer Supply offers Pool Price Pass Through tariffs to customers who are classed as Large Energy Users. The Commission has approved the schedule of pass through tariffs from ESB Customer Supply in line with the approved costs. The schedule of pass through charges also incorporates the customer credits that have been approved for large industrial customers in this category given Government concern about the impact of energy prices on large customers. It was decided that the value of the ESB Customer Credit and PSO Related Rebates would be maintained for all LEU customers over the 2009/10 tariff period, but will be gradually phased out over the following two tariff years from October 2010, with future credits being progressively lower and funded, to the greatest extent possible, by alternative structural measures.

The Commission has reviewed the ESB Customer Supply tariff submission in detail looking at each of the individual tariff inputs, in terms of costs and revenues, and the rates proposed and the Tariff Methodology Statement. Having completed its analysis, the Commission has concluded that the regulated tariffs proposed by ESB Customer Supply, and published for consultation by the Commission, accurately reflect the forecast costs to be incurred by ESB Customer Supply in the forthcoming tariff period 2009/2010. In its final decision the Commission have considered the impact of any potential changes to the tariff inputs, networks costs, wholesale energy costs, market operator charges and deemed these to be negligible in terms of the overall impact on the regulated tariffs.

As part of the consultation process the Commission sought the views of industry through direct written responses, at the public forum on tariffs for electricity and gas and also through direct discussions with industry. Respondents have raised a number of issues including; standing charges, regulatory risk, cost allocation and transparency, Irish electricity prices and the future of price regulation in Ireland. The Commission has addressed all these issues in this document. In particular, on the issue of cost allocation and transparency, the Commission is directing ESB Customer Supply to resubmit its Tariff Methodology Statement to provide additional detail on the supply cost allocation methodology. The Commission remains committed to providing a stable regulatory regime that will provide certainty to market participants as well as ensuring electricity costs are at the most efficient level.

The Commission has approved the publication of the regulated ESB Customer Supply tariffs for 2009/2010 as described in this document. The Commission is committed to the short to medium term removal of all price regulation provided there is the continued development of the appropriate levels of sustainable competition in all sectors of the market. The Commission will consult on its 'Roadmap' for deregulation in the autumn.

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1.0 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 sectors. 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 Electricity Regulation Amendment (SEM) Act 2007 outlined the Commission's functions in relation to the Single Electricity Market (SEM) for the island of Ireland. This market is regulated by the Commission and the Northern Ireland Authority for Utility Regulation (NIAUR). 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

The purpose of this paper is to set out and describe the Commission's decision with regard to ESB Customer Supply's (ESB CS) tariffs to apply from the 1st October 2009 to 30th September 2010 and the associated Tariff Methodology Statement (TMS). On 5th August, ESB CS, in its role as the Public Electricity Supplier (PES), submitted an application for an average decrease in tariffs of 0.2%. On 6th August the Commission published the proposal for consultation (CER/09/125) and it was open for public consultation until 24th August. A public forum on retail tariffs for electricity and gas was also held on the 10th August[1].

The Commission has considered fully the comments at the forum and the written submissions received. All issues raised throughout the consultation process are addressed in this paper, along with the Commission's final decision.

1.3 Comments Received

The Commission received three responses to the consultation paper (CER/09/125). Submissions were received from the following organisations:

- Chambers Ireland

[1] ESB CS Presentation to Open Forum on Tariffs 10 August 2009 – CER09131

- IBEC on behalf of the Large Energy User Working Group
- Airtricity

The Commission has published each of the responses received alongside this decision paper. A summary of the responses can be found in Appendix A.

1.4 Background Information

On 5th August 2009, PES submitted a proposal to the Commission for a review of its regulated fixed annual tariffs for the 2009 / 2010 tariff year. PES sought an average decrease in customer bills of 0.2%. The breakdown on bill impacts for various categories of customers is as follows; Domestic customers (typical household) 0.0%, Small business customers (GP) -0.4%, Medium business customers (LVMD) -5.5%. PES also submitted its Tariff Methodology Statement for 2009/2010 which is intended to demonstrate the approach and methodology that the PES has applied to the tariffs in a clear and transparent manner.

The regulated retail tariff year, as outlined in the CER Retail Tariff Timetable 2009 (CER/09/085), runs from the 1st October '09 to the 30th September '10, and is aligned for the public electricity suppliers in both the Republic of Ireland and Northern Ireland. During the 2008 / 2009 tariff year the Commission also conducted a number of interim tariff reviews. This was primarily due to the volatility of fuel prices over that period but also to take account of the challenging economic climate currently faced by businesses and domestic consumers alike. In its December 2008 decision paper the Commission sanctioned the inclusion of over €400m in rebates to all customers, irrespective of their supplier. In its most recent tariff review in April 2009, the Commission brought forward an average 10.3% decrease in regulated tariffs from 1st May, and this was achieved through re-profiling network charges, to the immediate benefit of all consumers and businesses. At that time the Commission noted that there was likely to be no further scope for price reduction in the autumn[2].

As part of this consultation the Commission has reviewed the PES submission in detail to ensure that the tariffs are fair and reasonable for consumers and reflective of costs incurred by PES. The review has included an examination of the costs and revenues per customer group, the appropriateness of the variance between the average impacts of the PES submission on the different tariff categories and the TMS.

[2] CER Decision on ESBCS tariffs to apply from 1 May 2009 – CER09053

1.5 Structure of the Paper

Section 1 - Sets out the background information and events leading up to this decision document.

Section 2 - Sets out what was contained in the PES tariff proposal for 2009/10.

Section 3 - This section looks at the comprehensive review and analysis undertaken by CER in assessing the reasonableness and cost-reflectivity of the PES tariff submission

Section 4 - Reviews the main issues raised by respondents to the consultation and outlines the Commissions view on each of the main points

Section 5 - Provides details of the Commission's final decision the PES tariff proposal and the changes to tariffs to come into effect on the 1st of October 2009.

2.0 PES TARIFF PROPOSAL 2009 / 2010

The Commission has undertaken a comprehensive review of the PES tariff submission. A description of the PES proposal and the detailed review process followed by the Commission to evaluate each element of the submission is provided below.

2.1 PES Tariff Proposal

On the 6th of August the Commission published the PES tariff proposals for the period 1st October 2009 - 30th September 2010. In its submission PES proposed an average reduction of -3.4% in tariffs to take effect from 1st October 2009, which in conjunction with the expiry of the PSO Related Rebate results in an overall average bill impact of -0.2% for PES customers annual electricity costs. Table 2.1 below shows the proposed average decrease for each tariff category.

Customer Category	**Average Tariff Change**
Domestic (typical household)	0.0%
General Purpose	-0.4%
Low Voltage Maximum Demand	-5.5%
Public Lighting	1.2%
Average Bill Impact	**-0.2%**

Table 2.1 Average bill impact by customer category

3.0 CER Review of PES Tariffs Proposal 2009 / 2010

As per the Commission's proposed decision paper, tariffs to apply from the 1st October 2009 must be cost reflective and the Commission has reviewed each of the following elements of the PES submission.

- Costs & Revenues
- Regulated Tariffs and Pool Price Pass Through (PPPT) charges
- Tariff Methodology Statement

3.1 Costs & Revenues

The following sections summarise the Commission's review of the relevant costs and revenue for each of the customer categories identified in the PES submission.

3.1.1 Generation Costs

PES provided the Commission with the following data to facilitate the Commission's review of the tariff proposal:

1. Detailed half-hourly demand forecasts for the tariff period. An aggregated forecast was provided for each individual customer category.
2. Detailed data with respect to Directed Contract and Non-Directed Contract purchases made by PES for the 2009/10 tariff period, including the transaction prices, quantities, delivery profile and delivery periods covered.
3. Data on forecast PES capacity costs for the tariff period.
4. A half-hourly SMP forecast for the tariff period based on a Plexos run using forward fuel prices from 22nd July.
5. A model showing how the fixed contract prices had been shaped to half-hourly periods for the purposes of allocating contract costs to customer classes.

The Commission has reviewed the data provided. This included taking independent runs of the PLEXOS model to verify the reasonableness of the PES forecast system marginal price (SMP). Further, PES's forecast capacity payments were checked against its forecast payment obligations to the capacity pot. Once the data provided by PES was verified, it was then used to produce the Commission's own estimate of the forecast generation costs for each PES tariff customer class. This exercise corroborated the reasonableness of the PES forecast of generation costs for each customer class.

3.1.1.1SMP Forecast July 2009

PES uses a forecast of the SMP to estimate how much it must pay for electricity bought from the pool (and not covered by a financial hedge). PES used the PLEXOS model to forecast SMP for the tariff period. The Plexos run used for the tariff submission was based on forward fuel prices on the 22nd of July. PES updated the PLEXOS model based on its assumptions for prevailing fuel and carbon prices, generator variable O&M costs and for the planned maintenance schedule.

While other PLEXOS assumptions could be made, as well as other assumptions for shaping the prices of PES contracts, the Commission has concluded that PES's assumptions are reasonable and follow an acceptable methodology.

3.1.1.2 SMP Forecast August 2009

The PES tariff submission was based upon forward fuel prices on 22nd July. In its consultation, the Commission committed to take account of any subsequent changes in international fuel prices from that time to the publication of the Commission's final decision document on 3rd September.

The Commission has continued to monitor the movement of forward fuel prices since the end of July and figure 3.1 below outlines the movement over that period and up to Monday the 24th of August.

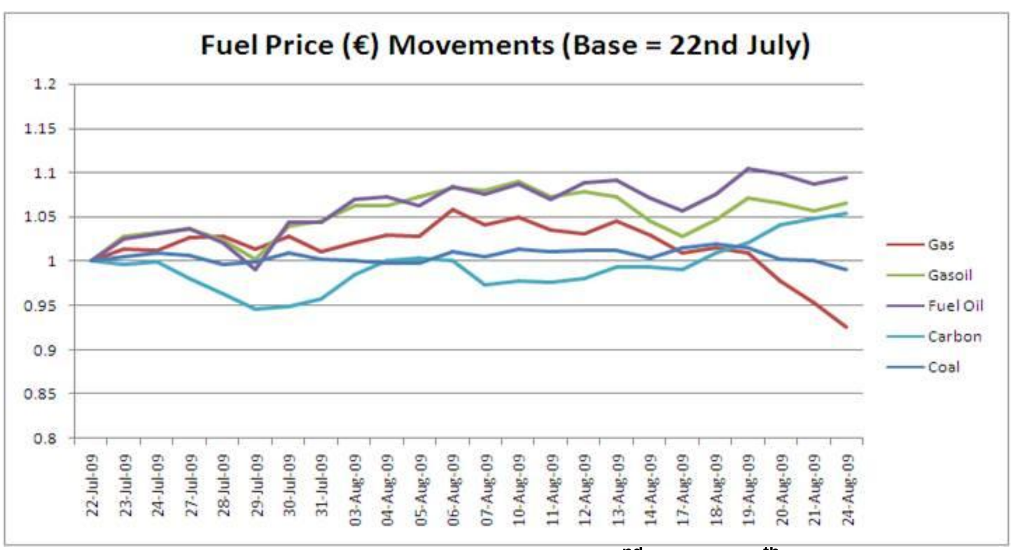

Figure 3.1 Forward Fuel Prices from 22nd July – 24th August

PES carried out a run of the PLEXOS model using the fuel prices from the 24th of August. The result was that there was minimal change to the forecast SMP for the 2009/10 tariff period and the changes were insignificant in terms of the impact on tariffs. This takes into consideration how PES has purchased 8,978GWhs of hedges for the 2009/10 tariff year, which equates to a total percentage hedge coverage of 80-85%[3] of its forecast volume.

The Commission also carried out independent runs of the PLEXOS model to verify the reasonableness of PES's forecast and performed sense checks on the data provided. This analysis corroborated the reasonableness of the PES forecast of generation costs

Therefore, the Commission is satisfied with the forecast SMP used by PES in their calculation of generation costs for the 2009/10 tariff period.

3.1.1.3 Economic Purchase Obligation

Under condition 9 of its Public Electricity Supply Licence, PES is required to engage in the economic purchase of electricity.

PES buys generational capacity from the All-Island market and the regulated tariffs allow for the recovery of these costs. The Commission permits the pass through of prudent hedge transactions costs where the hedges entered into by the PES were made in reasonable quantities at prevailing market prices pursuant to the Economic Purchase Obligation ("EPO").

Earlier this year the Commission engaged KPMG as independent auditors to review PES's compliance with EPO for 2007 and 2008. An information note[4] was published by the Commission in May 2009 outlining KPMG's findings that the PES approach complied with its EPO during 2007 and 2008 as specified in the Hedging Policy and Methodology Statements and Bidding Strategy. The Commission will once again be engaging independent auditors to conduct a detailed review of PES's EPO compliance for 2009.

3.1.2 Network Charges

The 10.3% average reduction in tariffs introduced in May of this year was done through the re-profiling of DUoS charges for the five month period May to

[3] Information Note on third update on Hedging and Work plan outlined in the 2009 Retail Tariff Timetable - CER09121
[4] Information Note on ESB Customer Supply EPO Compliance Audit - 2009 - CER09088

September. The distribution use of system (DUoS) tariffs for the 2009/10 period have been re-balanced to reflect the previous reductions and recoup the reduction in revenues from the period May to September 2009. The PES 2009/10 tariffs incorporate the new DUoS[5] and transmission use of system (TUoS[6]) rates published for consultation on the 27th July.

In order to confirm that PES had reasonably included the regulated rates, the Commission estimated the costs of providing Use of System charges for TUoS and DUoS services for each customer class, given the demand forecast data provided by PES and the proposed network tariffs.

A key factor in determining DUoS and TUoS charges for each customer class is how much of the class usage occurs during the day and how much occurs at night. In this regard, PES has clarified that it relied on the day-night usage split from its historical settlement data for each customer class in relation to DUoS (TUoS applied per standard profiles). The Commission accepts the application of historical settlement data is appropriate as it is a methodology that will lead to a reasonably accurate level of cost recovery for PES.

Before approving the document, the Commission has directed PES to update the TMS to clarify the use of profiles in the allocation of Network Charges.

3.1.3 Supply Costs

Under the allowed revenue model PES is permitted to pass supply costs through the PES tariffs. The PES has calculated tariffs for 2009/10 based on supply costs as outlined in the proposed decision paper on allowed costs published on the 30th July[7]. This is comprised of energy efficiency costs, supply margin and cost to serve. How these costs are allocated is set out below.

(i) Energy Efficiency

The energy efficiency cost outlined in the proposed decision document on allowed revenue is allocated across business tariff categories based on consumption.

(ii) Supply Margin

Although the regulated margin is set at 1.3% of total revenue; the margin is not uniformly applied across tariff categories.

[5] Proposed Decision Paper on 2010 DSO Revenue DUoS Tariffs and DLAFS – CER09116
[6] Proposed 2010 Transmission Revenue Paper - CER09115
[7] ESB PES Allowable Costs for the period 1 Oct 2009 - 30 Sept 2010 Proposed Decision - CER09120

(iii) Cost to Serve

As outlined in the TMS, supply costs are allocated on a cost to serve basis and PES allocates these costs to tariff customer classes based on the number of customers in each customer class. There is a fixed supply charge for each customer which is the average supply cost for their particular tariff group. The supply costs and margin are allocated to each tariff category using predetermined weighting factors. The PES cost to serve model attributes the supply overhead of doing business per customer into different customer categories and takes into account operational aspects of serving the different categories of customers The PES cost to serve model allocates €73 for each domestic customer, €99.60 for GP customers and €482.5 for each LVMD customers. This is then proportionally adjusted to match the final total allowed revenue.

The Commission has reviewed the allocation of costs and confirmed that the methodology used is consistent with the approach taken in previous years and as set out in the TMS. Since these costs are generally fixed in nature, the allocation to customer classes by customer number is not unreasonable.

Before approving the document, the Commission have directed PES to update the TMS to provide greater clarity on the manner in which PES supply costs are allocated.

3.1.4 Comparison of Projected Revenue and Aggregate All-In Costs

PES calculates the cost-reflective tariff increase/decrease required for each customer class by comparing the aggregate all-in costs to supply that customer class with the forecast revenue at its current rates. The aggregate all-in costs comprise the sum of generation, TUoS, DUoS costs, and supply costs. The Commission has verified the reasonableness of each component of PES's costs.

In calculating the forecast revenues, PES has used historic sales figures as per the actual settlement in order to calculate the volumes applicable to the various rates in each customer category. The Commission has reviewed the forecast rates and carried out independent calculations to ensure that the new rates will accurately recover the costs associated with each tariff category.

3.1.5 Summary of Cost & Revenue Analysis

Having reviewed the submission from PES, the Commission has concluded that the proposed costs & revenues included in the tariff submission are reasonable and reflect the costs of supplying each customer category. The revenue summary is set out in Table 3.2 below.

Tariff Revenue @ Current Rates	€ 1,500,533,877
Total Costs	€1,498,099,624
Total over-recovery	(€2,434,253)
% Price Increase Required	-0.2%[8]

Table 3.2 Forecast over-recovery at current tariff rates

Taking into account the revenue over-recovery, Table 3.3 below shows the decreases required to the average annual electricity cost for each customer category. The average overall bill impact is a decrease of 0.2%.

Customer Category	**Average Tariff Change**
Domestic (typical household)	0.0%
General Purpose	-0.4%
Low Voltage Maximum Demand	-5.5%
Public Lighting	1.2%
Average Bill Impact	**-0.2%**

Table 3.3 Average bill impact decrease in PES tariffs by Customer Category

3.1.6 Public Service Obligation Levy

The PSO levy is charged to all electricity customers and is designed to recoup the additional costs incurred by PES and other suppliers in meeting their obligations to purchase electricity from sustainable, renewable, and indigenous sources pursuant to the relevant support schemes. PSO obligations are set by the Government and administered by the Commission. The Commission has no influence over their level, but simply calculates the amounts due under the

[8] -0.2% includes adjustment for the Electricity Tax

schemes. The Commission published its decision paper on the PSO levy on 31st July 2009[9]. This paper calculated the PSO levy of €10.28m to apply from 1st October 2009 to 30th September 2010. However, in the context of the relatively low levy it was decided to set the PSO levy to zero for the period.

3.1.7 Updated Input Costs

In PES's submission a number of the cost inputs were based upon data that had been published for consultation, but with no final decision having been made they were therefore subject to change. In the interim, final decisions have been published on the following input costs;

- Supply costs; the final decision on PES allowed revenue for 2009/10 was also published on the 3rd September with no changes from the consultation paper.
- TUoS: the final decision paper on TUoS charges to apply for 2009/10 was published on 2nd September with no significant changes.
- DUoS: the final decision paper on DUoS charges to apply for 2009/10 was published on 2nd September with no significant changes.
- Market Operator and Imperfection charges: The decision paper on SEMO Revenue and Tariffs for 2009/10 was published on 28th August. While there were some reductions in the decision paper, their impact on PES tariffs would not be significant.

Overall the Commission has taken into account the updated data from these decisions along with the updated SMP run and has found that the net impact on the PES tariff submission was negligible and does not warrant any amendments.

3.1.8 Interim Tariff Review

Given the volatility of the international fuel prices over the past 18 months the Commission is conscious of the impact that significant changes in international fuel prices can have on SMP prices in the SEM and consequently on regulated tariffs. Therefore the Commission proposes to carry out an interim review of tariffs during the 2009/10 tariff period in order to ensure that they remain cost reflective.

The aim of the midyear review is to keep the regulated electricity tariffs more cost reflective and to minimise the effect of the K-factor between years. This review will enable the Commission to determine if a tariff change is warranted.

[9] CER Decision on PSO Levy for 2009/10 - CER09119

3.1.9 Commission Decision on PES Tariffs 2009/2010

The Commission's decision with respect to the costs and revenues as outlined in the PES tariff submission.

Commission Decision 1

Having reviewed the costs submitted by PES in its submission on the 5th August 2009 the Commission has decided to approve the costs and revenue proposals for the period 1st October – 30th September 2010. This includes allowed costs for the following components:-

- *Generation including forecast energy costs as of 22nd July 2009, capacity and market operators charges*
- *Networks Charges*
- *Supply costs*

3.2 CER Analysis of PES Proposal – Tariffs

Further to its review of proposed PES costs and revenues as outlined in section 3.1, the Commission reviewed the corresponding tariff proposals as proposed forward by PES. The Commission carried out independent calculations on the proposed rates to ensure that, given forecast demand, they would recover as close as possible the costs associated with each customer category.

In its decision is set out below, the Commission concluded that the detailed tariffs proposed by PES will recover revenues to match the cost inputs in each tariff category.

3.2.1. Commission's Decision on PES Tariff Proposal

Having reviewed the PES tariff submission and approved the average bill impact of -0.2% for period 1st October 2009 – 30th September 2010, the Commission has decided to approve final tariff changes as set out in the table of charges published alongside this paper of this paper.

Commission Decision 2

The Commission has decided to approve the revised PES tariffs as set out in the table of charges published alongside this paper. These revised tariffs result in an average decrease of 0.2% on customers final bill, with the average impact on customers' bills ranging from; Domestics 0%, GP -0.4% and LVMD -5.5%.

3.3 Commission Decision on PPPT charges

On 28th August the Commission published a consultation note on the 2009/10 PPPT tariff charges applicable for LEU customers. In the interim the final decision on Market Operator and Imperfections charges has been published and as such the Commission requested that PES resubmit the table of charges to reflect the up to date pass through charges.

Commission Decision 3

The Commission has decided to approve the revised PES PPPT charges for LEU customers as set out in the table of charges published alongside this paper.

3.4 CER Analysis of Tariff Methodology Statement

The Tariff Methodology Statement was envisaged as part of the overall regulatory framework as a requirement on both PES supplies to set out the principles and methods by which costs would be allocated to individual groups of customers.

In the introduction to the 2009/2010 TMS PES states that:-

> *"The purpose of the Tariff Methodology Statement is to set out clearly the methodology that ESB Customer Supply (ESBCS) uses to set regulated tariffs. This includes information on how costs are allocated to tariffs…"*

The Commission has reviewed the text of the TMS, and further to the responses to the consultation and comments received from suppliers, it is clear that the TMS does not clearly set out the PES methodology and that suppliers cannot interpret how costs are allocated to the various tariff groups, specifically supply costs. Therefore the Commission has decided not to approve the TMS as currently drafted but to require PES to provide additional clarity on the manner in which costs are allocated.

3.4.1. Commission's Decision on PES Tariff Methodology Statement

The Commission's decision on the Tariff Methodology Statement is set out below.

Commission Decision 4

The Commission has decided to direct PES to re-submit the Tariff Methodology Statement 2009 / 2010 for approval by the Commission, with appropriate text revisions on the following;

- To provide greater clarity on the manner in which the PES supply costs are allocated within the revenue model.

- To clarify the use of profiles in costs allocations

4.0 RESPONSES TO THE CONSULTATION

The Commission received three written submissions during the consultation period. The responses are summarised in Appendix A of this paper and published in full on the CER website. In addition, the Commission has considered the points raised at the public forum on the 10th August in reaching its decisions as well as issues raised in discussions with suppliers during the consultation period. This section highlights the key points which were raised and provides the Commissions view on each of the issues.

4.1. Standing Charge

Respondents' Comments

The issue of standing charges was raised during the consultation process and whether maintaining the charges at the current level is truly cost reflective.

Commission's View

Market demand in the first six months of 2009 was 5.8% lower than in the first six months of the previous year and demand for the 2009/2010 tariff period is forecast to fall further. The fall in demand has an impact in terms of increasing the unit fixed costs to serve a particular customer group. Standing charges associated with electricity tariffs are to recover fixed costs associated with serving that customer group and include network charges. The Commission notes that there were no material changes to the DUoS standing charges for this coming tariff period. Given that there is no change to the network elements and being mindful of the disproportionate impact an increase in standing charges would have on low consumption customers, the Commission has decided to approve the PES proposal to maintain the standing charges at current levels.

4.2 Cost Allocation & Transparency

Respondents' Comments

The issue of greater transparency was raised by respondents, who stated that the current level of detail provided does not give respondents the confidence that proposed tariffs, particularly in the SME sector, are fully cost reflective. These comments in relation to cost allocation were echoed by other respondents in response to the allowed revenue consultation, who noted that while improvements had been made in the level of detailed information available, more could be done to improve the transparency of the entire process.

Commission's View

The Commission steadily introduced a greater degree of transparency into the tariff setting process over the past two years. The Commission has published additional information on the detailed breakdown of costs in terms of its allowed revenue and in 2009 published regular updates on PES hedging activity throughout the CfD auctions. This was done in conjunction with NIAUR and as part of the ongoing harmonisation of PES regulation in the retail markets north and south.

In its decision on the tariffs for 2009/10 and the associated TMS, the Commission has considered the points raised by suppliers throughout the consultation process, specifically in relation to the allocation of PES supply costs to the relevant tariff categories, and has directed PES to provide additional clarity on the supply cost allocation process.

4.3 Regulatory Stability

Respondents' Comments

Respondents raised a concern that non-economically based interference in the market was impacting market stability and, consequentially, on market investment decisions. They called for a return to regulatory consistency and clarification from the Commission on how this would be achieved.

Commission's View

As highlighted in the decision on allowed revenue, the Commission notes the unprecedented volatility in the international fuel markets over the past 18 months. Ireland's high level of dependence on fossil fuels for electricity generation has meant energy prices in Ireland have seen dramatic changes. The worldwide economic downturn, which has been felt acutely in Ireland, has also put further pressure on business and domestic customers alike. Overall customer demand has fallen by 5.8% in the first 6 months of 2009 and this, combined with increased competition especially in the domestic sector, has had a knock on effect on the allowed revenue model and PES tariffs. In response to this changing environment the Commission has made some key decisions on the regulation of revenues and tariffs of the PES, but also the DSO and TSO, to ensure that tariffs are contained for consumers.

The longer term regulation for the retail electricity market will be examined in the 'Roadmap' consultation as referred to in section 4.6. The Commission would state again its commitment to ensuring regulatory stability for market participants, and emphasises that decisions will be made free from non-regulatory interference.

4.4 Irish Electricity Prices

Respondents' Comments
One of the respondents queried why Irish electricity prices were amongst the highest in Europe, specifically noting the relative differences in domestic and industrial prices.

Commission's View
In response, the Commission would reiterate the points that were set out in the consultation paper (CER 09/125) which explained the constituent elements of the tariffs, and the variability of the key costs drivers relative to other European countries.

The regulated tariffs proposals are based on the relevant costs incurred by PES in serving its customer base for the 2009/10 tariff year; Networks (transmission & distribution), Supply, Public Service Obligation levy and Wholesale costs (capacity & market operator costs and energy, which is the single largest cost driver). When reviewing Irish electricity prices there are a number of factors which must be considered in understanding the reasons why Ireland is, and is likely to remain for the time being at least, higher than the EU average. These include Ireland's fuel mix for electricity generation, which has one of the highest levels of fossil-fuel reliance within the EU. The majority of the total cost of generation relates to energy and the price of fossil-fuels, which is externally determined, has risen considerably over the last 10-12 years. Ireland is thus more exposed to fossil fuel prices than almost any other EU country. Ireland's network unit charges will also tend to be higher than most other European countries due to the dispersed nature of its population. There has also been a significant level of investment in the networks from 2000 onwards that provided essential upgrades to improve the security and reliability of the network as well as additional infrastructure to support the renewable targets and regional enterprise development. Over 90% of Ireland's electricity is generated using carbon-fuels, and carbon prices must be paid on all of this, unlike many European countries which have a much smaller proportion of electricity generated using carbon.

However the Commission is fully aware of the impact that energy prices have on the competitiveness of Irish firms, especially given the current economic circumstances and has continued to seek ways to reduce electricity costs for industrial customers. On the 27th August, the Commission published an information note outlining that, given Government concern about the impact of energy prices on Large Energy Users (LEUs), it had been decided that there will be a continuation of the customer credits for LEU customers during the 2009/10 tariff period. In addition, for the 2010/11 tariff period the Government has instructed the Commission to implement a rebalancing of tariffs in favour of larger users. The continuation of the LEU credit followed by the re-balancing of tariffs should provide significant benefit to large energy users over the next two years, helping to improve competitiveness in an area that provides substantial employment.

4.6. Price De-regulation

Respondents' Comments

In the current regulatory environment, where all tariffs of the incumbent supplier are regulated on a fixed annual basis, one respondent proposed that the absence of price de-regulation was the cause of a lack competition within the electricity sector as a whole. This respondent suggested that the process of de-regulation should proceed as rapidly to deliver the benefits of full competition to consumers.

Commission's View

As stated previously, the Commission is committed to the short to medium term removal of all price regulation provided there is the continued development of the appropriate levels of sustainable competition in all sectors of the market. The level of competition has continued to develop in all market segments and the Commission is of the opinion that price de-regulation and the move towards a fully competitive market will continue to deliver the benefits of competition to consumers. This process will commence with a full consultation on the issue in autumn 2009.

The Commission considers a fully competitive market will deliver the best value to consumers. The Commission is also mindful that the premature removal of appropriate pricing controls in relevant sectors of the market could potentially damage developing competition and ultimately constrict consumer choice. In the domestic electricity market, PES has lost approximately 225,000 customers to BGE and Airtricity to the end of July 2009. This represents approximately 12% of the domestic market. Significant further customer gains need to be made by independent suppliers before the Commission would be in a position to allow PES to actively compete to win back these customers. In the SME business sector, competition is a lot stronger and so different criteria will be considered in defining the mechanisms and timelines for the removal of price regulation. The consultation on a 'Roadmap' for de-regulation will explore the criteria for decision points in the removal of relevant regulatory controls on ESB businesses in a fully competitive environment, including price regulation in all sectors and the appropriate transitional mechanisms to a fully de-regulated market.

4.7 Demand Side Levy

Respondents' Comments

One respondent queried the significant increase in the Demand Side Management (DSM) charges contained in the TUoS charges.

Commission's View

The Winter Peak Demand Reduction Scheme (WPDRS) and Powersave are demand reduction schemes administered by Eirgrid on behalf of the Commission. The DSM is a pass through feature of TUoS charges and not within the scope of this retail tariff consultation. This charge is levied on all suppliers to support the relevant schemes. In 2008/209 the costs of the scheme increased by in excess of €2m above the approved budget and this is being recovered in the 2009/10 tariffs. This was partly accounted for the by the significant increase in payment to some participating customers on the WPDRS scheme during winter 2008/09 due to the larger than anticipated demand reductions due to the economic downturn. In addition there was a previous large over-recovery which drove down the costs in 2008/2009. The Commission is currently consulting[10] on proposed changes to the rules and rates for the WPDRS demand management schemes.

[10] EirGrid'S Winter Peak Demand Reduction Scheme and Powersave Proposals for Rules and Rates for 2009/10 CER 09142(a)

5.0 SUMMARY OF COMMISSION DECISIONS

This sections sets out a summary of the Commissions' decisions.

5.1. Commission's Decision on PES Costs & Revenue 2009/2010

Commission Decision 1

Having reviewed the costs in PES's submission from the 5th August 2009 the Commission has decided to approve the costs and revenue proposals for the period 1st October 2009 – 30th September 2010. This includes allowed costs for the following components:-

- *Generation including forecast energy costs as of 22nd July 2009, capacity and market operators charges*
- *Networks Charges*
- *Supply costs*

5.2 Commission's Decision on PES Tariffs to apply 1st October 2009- 30th September 2010

Commission Decision 2

The Commission has decided to approve the revised PES tariffs as set out in the table of charges published alongside this paper. These revised tariffs result in an average decrease of 0.2% on customers final bill, with the average impact on customers' bills ranging from; Domestics 0%, GP -0.4% and LVMD -5.5%.

5.3 Commission's Decision on PPPT Charges for LEU Customers 2009/10

Commission Decision 3

The Commission has decided to approve the revised PES PPPT charges for LEU customers for the period 1st October 2009 – 30th September 2010.

5.4 Commission's Decision on PES Tariff Methodology Statement 2009/10

Commission Decision 4

The Commission has decided to direct PES to re-submit the Tariff Methodology Statement 2009 / 2010 for approval by the Commission, with appropriate text revisions on the following;

- To provide greater clarity on the manner in which the PES supply costs are allocated within the revenue model.

- To clarify the use of profiles in costs allocations

Appendix A – Summary of Non Confidential Responses

1 – IRISH CHAMBERS

Chambers Ireland welcomed the proposed tariff reductions for small and medium sized business, stating that this would help to restore the competitiveness in the Irish economy.

They also called for the Commission's road map for deregulation to proceed and for the speedy introduction of full competition. Chambers Ireland also questioned whether the current pricing regime was hindering competition and maintaining electricity prices at a higher level than would be the seen if there was full deregulation.

2 - IBEC – LARGE ENERGY USERS WORKING GROUP (LEUWG)

IBEC LEUWG's response highlighted Eurostat data which indicated that Irish industrial electricity prices are disproportionately high compared to the EU average, whereas domestic prices are generally below the average.

The group's response also welcomed the extension of the LEU customer credit scheme and stated that while international fuel costs were indeed outside out domestic control, there was a need to promote energy efficiency, support competition and address the energy infrastructure deficit.

3 – Airtricity

Airtricity stated their belief that in a market with competition developing there is a requirement for a reasonable level of regulatory stability and certainty in terms of determining cost reflective PES tariffs. They went on to state that the current level of detail provided does not give respondents the confidence that the proposed tariffs, particularly in the SME sector, are fully cost reflective

Airtricity also expressed their opposition to tariff reviews which are outside the current tariff setting process and are of the opinion that non economically-based interference in market pricing is extremely damaging to independent supply businesses and will undermine the competition in supply that is now starting to develop.

Following on from this Airtricity highlighted their concern regarding the premature removal of regulation stating that it could potentially damage developing competition and ultimately constrict consumer choice.

Finally, Airtricity called for greater level of information regarding the allocation of costs across tariff categories in order to ascertain whether the proposed tariffs are fully costs reflective