



**Airtricity Response to**  
**ESB PES (Public Electricity Supplier)**  
**Proposed Tariffs for the period**  
**1st October 2009 to 30th September 2010 (CER/09/125)**

24<sup>th</sup> August 2009



## Introduction

**Airtricity has always argued that to enable the development of a competitively efficient retail market, it is important that simple, cost – reflective, ESB PES tariff structures and charges are in place and that the principles of appropriate cost allocation are clearly demonstrated.**

As an Independent Supplier in the retail electricity market in Ireland Airtricity pays for network usage at regulated rates and aim to cover our retail supply costs. In order to build and maintain a customer base, a discount based on efficiency gains is passed on to customers, thereby incentivising customers to switch supplier. To this end a clear rationale and transparency with regard to the level and allocation of cost components, of ESB tariffs is essential in allowing meaningful analysis of how the tariff charges are constructed and the allocation of costs to particular customer groups. Independent Suppliers can then ascertain if they are capable of offering efficiency savings to customers in the form of discounts to the current ESB electricity charges.

Airtricity strongly believes that in a developing competitive market **there is a requirement for a reasonable level of regulatory stability and certainty in terms of determining cost reflective PES tariffs with appropriately allocated costs.** We also believe that tariffs set on these principles provide correct economic signals for the development of a competitively efficient market.

We have reviewed the proposed tariffs against these criteria and have a number of points in relation to the CER consultation papers on the proposed ESB PES tariffs to apply from 1<sup>st</sup> October 2009.

## Regulatory Risk

Non economically-based interference in market pricing increases the level of regulatory uncertainty and sends uncertain signals to institutions and companies seeking to make long – term investment decisions. When pricing is politically driven, there can never be complete certainty that promised margin recovery will actually materialise.

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.

While we understand that, particularly at this time, tariff increases are unpalatable; it is important for the development of competition that **regulated tariffs are consistent and cost reflective.**

We are strongly 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.

The level of uncertainty introduced to the market last year due to the numerous unplanned tariff adjustments is unacceptable. Airtricity is **strongly opposed to tariff reviews which are outside the current tariff setting process**. We believe that this enhances market inertia, by causing confusion to customers who are considering a change of supplier. It has been shown that customers are reluctant to change supplier, when they believe that the incumbent supplier will be changing tariffs in the near future, as they are unsure as to whether they will miss out reductions.

The best incentive that a supplier entering the market can offer to a customer to switch will be a direct discount on the incumbent's tariff. If there is uncertainty as to the level of the incumbent tariffs over the year ahead, it becomes impossible for suppliers to make reliable forecasts to their costs when offering discounts to customers.

### **Removal of Regulation**

We are in agreement with the CER's stated position that the premature removal of appropriate pricing controls in relevant sectors of the market could potentially damage developing competition and ultimately constrict consumer choice. We struggle to understand why the removal of regulation in regard to ESB Tariffs is even being discussed at this stage given that ESB have lost less than 200,000 customers.

As competition increases in the retail electricity market, it will become increasingly difficult to predict the impact of customer switching on ESB PES revenue. Furthermore, although ESB Customer Supply, ESB Networks and ESB Power Gen may operate as effectively ring-fenced businesses, it will require increasing regulatory insight to judge the correct allocation of ESB Corporate and PES business overheads to each customer grouping.

We therefore welcome the opportunity to partake in the Commissions proposed consultation on a 'roadmap' for deregulation. This is urgently needed in order to provide both suppliers and customers with a signal as to when changes in the market and regulation of the market may occur.

In planning for this competitive market we believe that, the CER's statutory obligations other than protecting the interests of customers should also be considered, in particular;

- **not to discriminate unfairly between licence holders,**
- **promote competition,**

- **ensure that licence holders are capable of financing their activities**

### **Cost Reflectivity & Cost Allocation**

The level of detailed information provided on the proposed tariffs is inadequate. From the information given it would seem that the tariffs proposed by the ESB are broadly correct but it is impossible to ascertain if they are fully cost reflective. There needs to be greater transparency in the allocation of costs both within and between customer categories.

It is vitally important in a developing competitive market that simple, cost-reflective, tariff structures for the regulated entity are delivered and that reasonable cost allocation principles are demonstrated.

We believe that there must be clear transparency and rationale with regard to how tariff charges are constructed and the allocation of costs to particular tariff groups, and indeed how these costs are then allocated within each specific tariff group.

Assuming that pass through costs such as network and market operator charges are appropriately included within in each customer segment, there is not sufficient level of information to show commentators that ESB PES Supply costs or margin is correctly applied across all the tariff categories. We therefore ask the **CER to provide a clear and detailed breakdown of how each of these costs are allocated across the different customer/tariff categories.**

Finally from the level of information provided it is not possible to tell whether the removal of the rebates and network tariff rebalancing that has applied to tariffs over the past year been successful. We ask that the CER clearly show how the different tariffs have been correctly rebalanced to ensure that they are now fully cost reflective.

### **Rounding Errors**

In the document detailing the actual tariff levels (CER/09/126) published alongside this consultation there are number of rounding errors. For example on pg 21 the annual standing charge for an Autoproducer is given as €71.41 and the daily charge is given as €0.1956. If the daily charge rate is used as published this would result in the standing charge being under recovered by €0.016, i.e.  $€0.1956 * 365 = €71.394$ .

We surmise that this is due to the daily rate being rounded from €0.19564384 (€71.41/365) to €0.19556.

This is also the case with the LVMD & LVLLF Standing Charge for Autoproducers, Capacity Charge, and Autoproducer Capacity Charge (on Pgs 23 & 24).

We understand the desire to publish the truncated number; however we would ask that the CER confirm that the correct unrounded value is used in the actual billing system.

### **Conclusion**

In summary Airtricity believes that there must be clear rationale and transparency with regard to the individual cost components of the published ESB tariffs, both on an overall and individual tariff basis.

The current level of information provided does not enable respondents accurately ascertain if the proposed tariffs are individually costs reflective, and as stated above Airtricity believes that **cost-reflective pricing must prevail in the retail electricity market**, to avoid damaging the competition in supply that is now starting to develop.

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To discuss this document please contact:

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