



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

2012 TSO and TAO Revenue

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Abstract:

This Information Note outlines the revenues that EirGrid and ESB Networks will be allowed to recover from the Transmission Use of System (TUoS) customer over calendar year 2012, to cover their costs as electricity Transmission System Operator (TSO) and Transmission Asset Owner (TAO), respectively.

In 2010 the CER outlined its decision (CER/10/206) on the new electricity transmission price control, known as PR3, covering the period 2011 to 2015. During the PR3 period yearly updates will be completed as per the structures outlined in section 13 of CER/10/206. The following Information Note outlines the effect of implementing the yearly update to the 2012 transmission revenue.

Target Audience:

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

Related Documents:

CER/11/128 Decision on 2011/2012 Transmission Incentives.

CER/10/206 Decision on TSO and TAO transmission revenue for 2011 to 2015.

CER/10/207 Response to comments received to CER/10/102 (consultation on TSO and TAO transmission revenue for 2011 to 2015).

CER/10/102 Consultation on TSO and TAO transmission revenue for 2011 to 2015.

CER/09/140 Determination of 2010 Transmission Allowed Revenue and Use of System Tariffs.

Executive Summary

The following Information Note paper outlines the application of the first PR3 yearly update (2012) to the PR3 transmission revenue. This revenue is to be collected during calendar year 2012 and will cover the costs of the TSO and TAO.

The Transmission Use of System (TUoS) tariffs applicable to Demand Customers have been published alongside this Information Note. The TUoS tariffs, applicable to Generators on an all-island basis¹, will be dealt with in a separate SEM publication.

Financial data in this Information Note is expressed in 2010 price levels, unless otherwise stated.

2012 TSO allowed revenue

The CER has approved TSO revenue of €114.29 million for the 2012 calendar year. This figure has been derived from the following:

- Allowed 2012 TSO revenue of €118.43 million as per CER/10/206²;
- Outturn results for 2010 TSO External costs (e.g. Ancillary Services);
- Outturn results for 2010 TSO System Performance Incentives;
- Adjustment for actual 2010 inflation³; and
- Adjustment for differential in TUoS energy volume recovery against the assumed energy throughput forecast in 2010, known as the 2010 K-Factor.

Inflating this figure to a nominal 2012 price level⁴ results in a TSO allowed amount of €117.29 million. This is an increase of 24% relative to the revenue approved for the 2011 calendar year (€94.72 million in nominal 2011 prices).

2012 TAO allowed revenue

The CER has approved TAO revenue of €138.04 million for the 2012 calendar year. This figure has been derived from the following:

- Allowed 2012 TAO revenue of €157.83 million as per CER/10/206⁵;

¹ Please refer to SEM-10-081 [here](#).

² Allowed figure of €120.36 million in 2009 prices inflated to 2010 prices using Irish HICP factor of -1.6%.

³ CPI was used as the inflation factor during the PR2 (2006-2010) and used to derive 2010 transmission revenue in CER/09/140. For the current price control PR3 (2011-2015) Irish HICP will be used as the inflation factor. Please refer section 13.2.2 of CER/10/206.

⁴ EWIC charge held at real €12.5 million and 2012 prices based on inflation of the 2010 prices by actual/forecast Irish HICP rates 1.5% in 2011 and 1% in 2012. Please refer to the ESRI Quarterly Economic Commentary, Spring 2011 [here](#).

⁵ Allowed figure of €160.4 million in 2009 prices inflated to 2010 prices using Irish HICP factor of -1.6%.

- Outturn results for 2010 TAO External costs (e.g. Local Authority Rates); and
- Adjustment for actual 2010 inflation⁶.

Inflating this figure to a nominal 2012 price level⁷ results in a TAO allowed amount of €142.72 million. This is a decrease of 12% relative to the revenue approved for the 2011 calendar year (€162.64 million in nominal 2011 prices).

2012 Total Transmission Revenue

Combining allowed TSO and TAO revenue results in a total 2012 transmission allowance of €252.33 million in 2010 prices. This equates to €260.01 million in nominal 2012 prices. This is an increase of 1% relative to the transmission revenue approved for the 2011 calendar year (€257.36 million).

€ millions	2010 prices	2012 nominal prices ⁸
2012 TSO Revenue	114.29	117.29
2012 TAO Revenue	138.04	142.72
2012 Total Transmission Revenue	252.33	260.01

2012 AUP and 2011/2012 tariff year AUP

Since TUoS tariffs are not set on a calendar year basis, it is useful to compare transmission revenue relating to TUoS tariff periods. The appropriate portion of the €260.01 million (2012 nominal prices) detailed in this Information Note for the 2012 calendar year, plus the relevant portion of the €262.25 million (2012 nominal prices) that was approved for the 2011 calendar year⁹ would result in transmission revenue of €259.64 million (2012 nominal prices) for the TUoS tariff period from 1st October 2011 to 30th September 2012.

This is a nominal revenue increase of 3% relative to the equivalent revenue (€251.37 million) for the period 1st October 2010 to 30th September 2011.

If this allowed revenue of €259.64 million (2012 nominal prices) was recovered during the 1st October 2011 to 30th September 2012 period it would result in a TUoS AUP of 0.98 c/kWh, a 4.3% increase from the equivalent twelve month period from 1st October 2010 to 30th September 2011. The rise can partly be attributed to the continued weakness in Demand expected for both 2011 and 2012 in ROI.

⁶ CPI was used as the inflation factor during the PR2 (2006-2010) and used to derive 2010 transmission revenue in CER/09/140. For the current price control PR3 (2011-2015) Irish HICP will be used as the inflation factor. Please refer section 13.2.2 of CER/10/206.

⁷ 2012 prices based on inflation of the 2010 prices by actual/forecast Irish HICP rates 1.5% in 2011 and 1% in 2012. Please refer to the ESRI Quarterly Economic Commentary, Spring 2011 [here](#).

⁸ Ibid.

⁹ Please refer to the CER decision paper CER/10/206.

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1.0 Introduction

1.1 *The Commission for Energy Regulation*

The Commission for Energy Regulation ('the CER') is the independent body responsible for overseeing the regulation of Ireland's electricity and gas sectors. The CER 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 CER's jurisdiction to include regulation of the natural gas market, while the Energy (Miscellaneous Provisions) Act 2006 granted the CER additional powers in relation to gas and electricity safety.

The Electricity Regulation Amendment (SEM) Act 2007 outlined the CER's functions in relation to the Single Electricity Market (SEM) for the island of Ireland. This market is regulated by the CER and the Northern Ireland Authority for Utility Regulation (NIAUR). The CER 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 Information note outlines:

- The level of transmission revenue that EirGrid (the Transmission System Operator, TSO) and ESB Networks (the Transmission Asset Owner, TAO) will be allowed to recover from the TUoS customer in the 2012 calendar year. This revenue will allow the TSO and TAO to finance their activities as the monopoly electricity system operator and system owner in Ireland.

1.3 *Structure of this paper*

This paper is structured in the following manner:

- **Section 1** provides an introduction to and outlines the purpose of this Information Note;
- **Section 2** provides background information on this note. It outlines, at a high level, the decisions made as part of the PR3 Transmission Price Control published in November 2010¹⁰;
- **Section 3** provides detail on the transmission revenue that has been approved for the 2012 calendar year;
- **Section 4** provides a summary;

¹⁰ Please refer to the CER decision paper CER/10/206.

- **Section 5** outlines the Demand Side Management Charge applicable to the upcoming tariff period; and
- **Appendix A** outlines the approved 2011/2012 TUoS Demand Schedule of tariffs for the period 1st October 2011 to 30th September 2012. Please note that the full 2011/2012 Statement of Charges will be published by EirGrid, as TSO, in accordance with Section 36 of the Electricity Regulation Act 1999 before commencement of the new tariff period.

2.0 Background Information

2.1 PR3 Transmission Revenue Control

In November 2010, the CER published a decision paper (CER/10/206) on the revenue that EirGrid (TSO) and ESB Networks (TAO) will be allowed to recover from the Transmission Use of System customer over the period 2011 to 2015. This period is known as PR3.

The five years from 2011-2015 will require significant new investment in the transmission system. The target of ensuring 40% of Ireland's electricity is generated by renewable sources by 2020 means a major expansion of the transmission network. This will allow these new renewable Generators to connect to the system. The transmission network also needs ongoing investment to ensure it operates securely and effectively.

This necessary investment will mean that the overall revenues to be recovered by the TSO and TAO over the period of the review will rise from their current levels, and that the TUoS charges levied to consumers will rise somewhat. However, it should be noted that TUoS is a small overall element of a customer's bill (approximately 7%) and that the revenues outlined in this paper will result in a minor increase per annum in a customer's overall bill.

The CER adopts an incentive based model to separately determine the TSO's and TAO's allowed revenues. Both utilities internal operating costs are fixed for a five year period. If either utility spends more than it is allowed, it bears the cost. On the other hand if the utility spends below what it is allowed it can keep the surplus made any one year for a period of five years as a means of incentivising efficiency, as long as those savings have been made in an efficient manner and not simply through avoiding expenditure to the detriment of the transmission system.

Customers benefit in the medium term by the progressive decrease in operating costs allowed at subsequent price reviews.

The allowed revenue set for each calendar year of the PR3 period for both TSO and TAO is shown in the below table¹¹. Please refer to CER/10/206 for the breakdown of these revenues.

(2009 monies, €m's)	2011	2012	2013	2014	2015	Total
TSO Allowed Revenue	95.68	120.36	159.47	159.17	161.02	695.72
TAO Allowed Revenue	164.29	160.40	165.65	198.28	232.48	921.10

Table 1: TSO & TAO Allowed Revenues 2011-2015

¹¹ Please note that these figures have been rounded to the nearest ten thousand euro.

2.2 Determination of TSO and TAO revenue for each calendar year

CER/10/206 also detailed how the allowed revenues would be updated each year for both the TSO and TAO in PR3. Accordingly, this is the first year that such an update will take place – for calendar year 2012. Please refer to section 13 of the decision paper (CER/10/206) as to how TSO and TAO revenue will be updated for each calendar year.

2.3 Determination of TUoS tariffs for each tariff period

For 2006 (and previous years), TUoS tariffs were set on a calendar year basis using estimated Gigawatt hour (GWh) figures and the allowed transmission revenue for that calendar year.

In 2007, TUoS tariffs were set for an 11 month tariff period from 1st November 2007 to 30th September 2008. The reasons behind the decision to change the tariff period to a non-calendar-year term are documented in the CER decision document AIP/SEM/07/93¹².

TUoS tariffs are now currently set on a tariff year basis, i.e. 1st October to 30th September.

¹² The decision paper on PES retails tariff period alignment in both regulatory jurisdictions (AIP/SEM/07/93) is available [here](#).

3.0 TSO & TAO revenue for the 2012 calendar year

3.1 Introduction

As detailed in Section 2.1, in November 2010 the CER published a decision paper (CER/10/206) detailing the level of TSO and TAO allowed revenue for the period 2011 to 2015 (PR3). That decision paper also detailed how the allowed revenue would be updated each year.

The TSO and TAO revenue for the 2012 calendar year have been separately updated according to the above decision paper. The CER approves TSO revenue of €114.29 million for the 2012 calendar year. The CER also approves TAO revenue of €138.04 million for the 2012 calendar year. This is based on a revenue submission provided by the TSO and TAO and the calculations behind this figure are explained below.

3.2 TSO revenue for the 2012 calendar year

Revenue control formula

The revenue control formula, which is used to keep the TSO's revenue in line with allowed costs, is set out in detail in Section 13 of CER/10/206. This has been slightly modified to take account of the TSO Incentive outturn in year t-2 (in this case calendar year 2010). Very simply, the revenue control formula takes the 'base' allowed revenue (in 2009 monies, as detailed in Table 1), inflates that revenue into nominal figures, and adjusts it for specific revenue parameters. The following formula is used:

$$R_t = \prod_{2010}^t \left[\frac{1 + Inf_t - X}{100} \right] * B_t + INCENT_t + KINCENT_{t-1} \Delta P_t + \Delta U_t + K_{t-1} + K_{t-2}$$

Equation 1: Price control formula from CER/10/206¹³.

$$R_t = \prod_t \left[\frac{1 + Inf_t - X}{100} \right] * B_t + Incent_{t-2} + \Delta P_t + \Delta U_t + K_{t-1} + K_{t-2}$$

Equation 1: Price control formula from CER/10/206 formula for application in revenue year 2012.

The terms within Equation 2 are fully explained within CER/10/206, apart from $Incent_{t-2}$ which is defined below. For the 2012 calendar year:

¹³ ibid

- R_t , the maximum level of TSO revenue allowed in 2012, is €114.29 million;
- Inf_t , when inflating from 2009 to 2010 values, the relevant figures are increased by -1.6%¹⁴;
- X , the efficiency factor, is set at zero;
- B_t , the level of allowed revenue for the 2012 calendar year in real 2009 prices as detailed in the CER/10/206, is €120.36 million. B_t is further adjusted to take account of the 2011/2012 Imperfections Charge July consultation forecast (€190.8 million¹⁵), which effects the working capital provision of the TSO. Final B_t is therefore €121.09 million;
- $INCENT_{t-2}$, is the value of incentive penalties in year t-2 in € millions in respect of the penalties or payments¹⁶. PR3 transmission incentives for the next incentive period (2011/2012) are outlined in a separate CER paper CER/11/128. The value of TSO incentive payments for 2010, is €0.575 million;
- ΔP_t , the change in 2012 in TSO external costs (e.g. Ancillary Services) from those assumed in the determination paper CER/10/206, is €0.5 million;
- ΔU_t , the change in 2012 unforeseen costs from those assumed in the determination paper CER/10/206, is €1.74 million;
- K_{t-1} , this is the correction factor, which ensures that prices in year t are adjusted by an amount equal to the over or under recovery in the previous calendar year. For the purposes of calculating the 2012 TSO revenue this is €0; and
- K_{t-2} , the equivalent correction factor for 2010, is -€7.33 million.

3.3 2010 TSO outturn and k-factors to apply to 2012 TSO revenue

This section outlines the TSO's revenue for 2010 allowed under the 2010 transmission revenue determination (CER/09/140) and the changes now made, on an ex-post basis. This is then compared with the actual revenue received from market participants, to calculate the total allowed transmission over-recovery of revenue in 2010, known as the k-factor. This k-factor will feed into the 2012 TSO revenue.

¹⁴ Irish HICP 2010 inflation value – please refer to the ESRI Quarterly Economic Commentary, Spring 2011 [here](#).

¹⁵ Please refer to SEM-11-054 [here](#).

¹⁶ Please refer to CER/09/004 [here](#).

2010 prices	CER Ex-ante allowed 2010¹⁷	CER Outturn allowed 2010	Difference (Outturn minus ex-ante)
<i>Total Internal Costs</i>	<i>49.94</i>	<i>49.94</i>	<i>0</i>
Ancillary Services	41.94	37.19	-4.75
Constraint Costs	0	0	0
Regulatory Levy	0.80	0.68	-0.12
Inter TSO Compensation	1.10	1.18	0.08
Other (incl. DSO Wires)	0.30	0.12	-0.18
Interconnector Services	0.62	0 ¹⁸	-0.62
Constraints Arrangement Fees	0.34	0.40	0.06
<i>Total External Costs</i>	<i>45.10</i>	<i>39.57</i>	<i>-5.53</i>
2010 System Performance Incentives	0.58	0.58	0
2008 GWh Under-recovery	0.78	0.78	0
TAO Charge	141.45	141.45	0
<i>Total TSO costs</i>	<i>237.84</i>	<i>232.31</i>	<i>(a)-5.53</i>
<i>Total TSO Income¹⁹</i>	<i>237.84</i>	<i>239.64</i>	<i>(b)-1.8</i>
Total adjustment (pre-interest)			(a)+(b) -7.33

Table 2: Ex-post 2010 TSO Revenue

2010 outturn System Performance Incentives (SPIs)

An incentive value of €0.575 million is included in the above table. This includes incentives values for System Minutes Lost (SML), System Frequency, Fault Clearance Rates²⁰ and Lodgement of Planning Permission categories. The TSO target levels for 2010 are set out in CER/09/004 and the outturn results and applicable TSO payment/penalties are detailed in table 3 below.

The full incentive was achieved for System Frequency Management and System Minutes Lost; meanwhile the incentive for Fault Clearance Rate was partially achieved. There were no applicable projects in the incentive period to

¹⁷ Figures adjusted for actual 2009 and 2010 CPI inflation of -4.5% in 2009 and -1.0% in 2010. CER/09/140 assumed -4.6% in 2009 and 0% in 2010.

¹⁸ Outturn figure included in Ancillary Services outturn.

¹⁹ EirGrid submission April 2011.

²⁰ Please refer to the Annual Transmission System Performance reports published by EirGrid.

measure performance of lodgement of planning permission for shallow connection works – therefore no penalty or payment is applied.

Incentive		Target	Outturn	Payment/Penalty in 2010 prices €m's
System Minutes Lost		3.5 SML +/- 2 SML	1.4	0.221
System Frequency		94% +/- 2%	98.6%	0.221
Fault Clearance rates		0.15 +/- 0.1	0.09	0.133
Lodgement of Planning Permission		Lodged in standard timeframes	N/A	0
Total				0.575

Table 3: TSO 2010 System Performance Incentives outturn.

3.4 2012 TSO revenue and explanation of 2012 adjustments

Table 4 below provides a summary of the allowed TSO revenue for 2012 as determined in CER/10/206 compared with the revenue submission for 2012 made by the TSO and, following a review of this submission, the CER's determination of the amount allowed for 2012.

€ millions 2010 prices	CER Ex-ante allowed 2012	Final CER allowed 2012	Difference
<i>Total Internal Costs</i>	<i>41.49</i>	<i>41.49</i>	<i>0</i>
Ancillary Services	45.56	45.76	0.20
Constraint Costs	0	0	0
Regulatory Levy	0.89	0.89	0
Inter TSO Compensation	1.11	1.17	0.06
Other (incl. DSO Wires)	0.39	0.64	0.25
Interconnector Services	0.59	0.59	0
Stage 1 Working Capital	4.64	4.64	0
<i>Total External Costs</i>	<i>53.18</i>	<i>53.68</i>	<i>0.50</i>
EWIC Charge	12.50	12.50	0
Depreciation/Return/Incentives	9.23	9.23	0
Working Capital	2.95	2.97	0.02
2012 Adjustments ²¹	0	1.74	1.74
2010 K-Factor from Table 2	0	-7.33	-7.33
Total Allowed Revenue	119.35	114.29	-5.06

Table 4: k-factor and adjustments to TSO revenue for 2012

²¹ Relates directly to 2012 and is included within Equation 2 under the terms ΔP_t and ΔU_t .

Equation 2 shows that B_t for 2012 was adjusted for inflation to give a figure of €119.35 million. This figure is then adjusted downwards by the 2010 TSO k-factor, minus €7.33 million, and the pass-through/unforeseen items, €1.74 million, to yield the total value of €114.29 million for TSO revenue for the 2012 calendar year.

The following section summarises the inputs that make up the pass-through and unforeseen items for 2012.

External Costs - ΔP_t

- Ancillary services have been increased by €0.2 million reflecting the exploration and contracting for additional services which have been discussed with the Regulatory Authorities in the context of the Harmonisation of Ancillary Services discussions.
- A minor adjustment has been made to the ITC Mechanism Forecast in response to the expectation that there will be higher obligations with the operation of EWIC at the end of 2012.
- The DSO wires costs are consistent with the forecast received from ESB Networks Ltd., as DSO, on six DG10 110kV accounts. There is a slight increase in this anticipated cost.

The CER will undertake an ex-post review of these costs, which will feed into allowed TSO revenue for 2014.

Unforeseen Adjustments - ΔU_t

- The constraints arrangement fee represents an estimate of the arrangement and commitment fees for the updated facility for unbudgeted constraints costs. It will be adjusted ex-post to reflect the scale of the funds in place and the arrangement and commitment fees associated with those funds. The CER allows a sum of €0.73 million for this adjustment.
- Following submissions from renewable developers in 2010, the CER decided to reduce the level of Gate 3 application fees by 8%. In a June 2010 decision letter from CER to the TSO it was relayed that where connection application fees were not paid, shortfalls would be recoverable through TUoS. There are a small number of these cases and the CER allows a sum of €0.138 million for this adjustment.
- Schedule 7 the Infrastructure Agreement (*Remuneration*) states that “*in the event that a project does not proceed to Project Agreement stage the costs incurred by the TSO will be a matter between the TSO and the Commission*”. This largely did not occur in the context of increasing demand during PR2. However, one such project was discontinued during 2010 and CER allows a sum of €0.319 million for this

adjustment. Stakeholders should note that the TSO will be asked by the CER to carry out a study on the number of such projects, the current Stage 1 costs of those projects and the likelihood of them not moving to Project Agreement. This will be done on the basis of protecting the TUoS customer from increasing unforeseen costs that may occur in PR3.

- The SEM Committee meeting on 2 March approved the modifications to facilitate Intra-Day trading. In late March the EirGrid Group made a submission outlining the revenue requirements associated with the delivery of the Intra-Day project and its ongoing operation, some of which is associated with the ROI TSO licence. These costs have been reviewed and approved by the SEM Committee. The CER allows a sum of €0.55 million for this adjustment.

3.5 TAO revenue for the 2012 calendar year

Revenue control formula

The revenue control formula, which is used to keep the TAO's revenue in line with allowed costs, is also set out in detail in Section 13 of CER/10/206. As with the TSO this has been slightly modified to take account of the TAO Incentive outturn in year t-2. The revenue control formula takes the 'base' allowed revenue (in 2009 monies, as detailed in Table 1), inflates that revenue into nominal figures, and adjusts it for specific revenue parameters. The following formula is used:

$$R_t = \prod_{2010}^t \left[\frac{1 + Inf_t - X}{100} \right] * B_t + INCENT_t + KINCENT_{t-1} \Delta P_t + \Delta U_t + K_{t-1} + K_{t-2}$$

Equation 3: Price control formula from CER/10/206²²

$$R_t = \prod_t \left[\frac{1 + Inf_t - X}{100} \right] * B_t + Incent_{t-2} + \Delta P_t + \Delta U_t + K_{t-1} + K_{t-2}$$

Equation 4: Updated formula for application in revenue year 2012

The terms within Equation 4 are fully explained within CER/10/206, apart from $Incent_{t-2}$ which is defined below. For the 2012 calendar year:

- R_t , the maximum level of TAO revenue allowed in 2012, is €138.04 million;

²² ibid

- Inf_t , when inflating from 2009 to 2010 values, the relevant figures are increased by -1.6%²³;
- X , the efficiency factor, is set at zero;
- B_t , the level of allowed revenue for the 2012 calendar year in real 2009 prices as detailed in the CER/10/206, is €160.40 million¹⁰;
- INCENT_{t-2} , is the value of incentive penalties in year t-2 in € millions in respect of the penalties or payments. Please note that there were no performance linked revenue incentives placed on the TAO during the PR2 period, which includes calendar year 2010. PR3 transmission incentives, which includes TAO incentives, for the next incentive period (2011/2012) are outlined in a separate CER paper CER/11/128. Therefore, the value of TAO incentive payments for 2010, is €0;
- ΔP_t , the change in 2012 in TAO external costs (e.g. Local Authority Rates) from those assumed in the determination paper CER/10/206, is €0;
- ΔU_t , the change in 2012 unforeseen costs from those assumed in the determination paper CER/10/206, is €0;
- K_{t-1} , this is the correction factor, which ensures that prices in year t are adjusted by an amount equal to the over or under recovery in the previous calendar year. For the purposes of calculating the 2012 TAO revenue this figure is €0; and
- K_{t-2} , the equivalent correction factor for 2010 is -€19.78 million.

3.6 2010 TAO outturn and k-factors to apply to 2012 TAO revenue

This section outlines the TAO's revenue for 2010 allowed under CER/09/140 and the changes now made, on an ex-post basis. This is then compared with the actual revenue received to calculate the total allowed transmission over-recovery of revenue in 2010, known as the k-factor. This k-factor will feed into the 2012 TAO revenue.

2010 prices	CER Ex-ante allowed 2010 ²⁴	CER Outturn allowed 2010	Difference (Outturn minus ex-ante)
Gross Revenue Allowed	160.51	160.51	0
PR2 Opex Adjustments	-4.34	-11.84	-7.5
PR2 Capex Over-recovery Adjustment	-5.62	-17.9	-12.28
TAO Total Revenue	150.55	130.77	
Total k-factor adjustment (pre-interest)			-19.78

Table 5: Ex-post 2010 TAO Revenue

²³ Irish HICP 2010 inflation value – please refer to the ESRI Quarterly Economic Commentary, Spring 2011 [here](#).

²⁴ Figures adjusted for actual 2009 and 2010 CPI inflation of -4.5% in 2009 and -1.0% in 2010. CER/09/140 assumed -4.6% in 2009 and 0% in 2010.

3.7 2012 TAO revenue and explanation of 2012 adjustments

Table 5 below provides a summary of the allowed TAO revenue for 2012 as determined in CER/10/206 compared with the revenue submission for 2012 made by the TAO and, following a review of this submission, the CER's determination of the amount allowed for 2012.

2010 prices	CER Ex-ante allowed 2012	Final CER allowed 2012	Difference
Total Internal Costs	27.06	27.06	0
Total External Costs	18.70	18.70	0
Further Efficiencies	-3.28	-3.28	0
Depreciation/Return/Incentives	115.35	115.35	0
2012 Adjustments ²⁵	0	0	0
2010 K-Factor from Table 5	0	-19.78	-19.78
Total Allowed Revenue	157.83	138.04	-19.78

Table 5: k-factor and adjustments to TAO revenue for 2012

Equation 4 shows that B_t for 2012 was adjusted for inflation to give a figure of €157.83 million. This figure is then adjusted downwards by the 2010 TAO k-factor, minus €19.78 million, to yield the total value of €138.04 million for TAO revenue for the 2012 calendar year.

TAO Incentives

An incentive value of €0 is included in the above table. As noted above there were no performance linked revenue incentives placed on the TAO during the PR2 period, which includes calendar year 2010. PR3 transmission incentives, which includes TAO incentives, for the next incentive period (2011/2012) are outlined in a separate CER decision paper CER/11/128.

3.8 Interest Provision for 2010 TSO and TAO Over/Under-Recovery

As stated in CER/10/206, the mechanism for inter-year adjustments for under or over-recovery is to apply interest at the three month average Euribor rate. The interest rate (I) that is applied to under and over-recoveries of transmission revenue for year $t-2$ is as follows:

I_{t-2} is the mean of the twelve monthly average three month Euribor rate between April and March of the year $t-2$ (i.e. April of year $t-3$ to March year $t-2$) multiplied by the mean of the twelve monthly average three

²⁵ Relates directly to 2012 and is included within Equation 4 under the terms ΔP_t and ΔU_t .

month Euribor rate between April and March of the year t-1 (i.e. April of year t-2 to March year t-1).

Applying an interest rate of -1.80% in 2010 and 2011 to the 2010 TSO k-factor of -€7.33 million, results in a net TSO k-factor of -€7.06 million in 2012 nominal prices.

Applying an interest rate of 1.80% in 2010 and 2011 to the 2010 TAO k-factor of -€19.78 million results in a net TAO k-factor of -€19.08 million in 2012 nominal prices.

3.9 The inflation rate

The CER's PR2 decision paper CER/05/143 defines the CPI value within the PR2 formula as:

'CPI the annual average percentage change in the Irish (all-items) Harmonised Index of Consumer Prices (HICP) for the 12-month period October to September in the year j.....published by Eurostat in Eurostatistics for short-term economic analysis'

When setting the TSO and TAO revenue for the 2009 calendar year, the CER considered whether it would be appropriate to switch at that stage to the Irish Harmonised Index of Consumer Prices (HICP) or to continue with CPI and decided to continue to use CPI as the indexation value for the remainder of this revenue control.

However, as per section 13 of CER/10/206 the CER has decided to use the Irish HICP as the inflation index for PR3 period, 2011-2015.

Therefore, Irish HICP being used to inflate from 2009 actual prices to 2012 nominal prices.

3.10 Comparison with revenue for 2011 calendar year

- The allowed TSO revenue for the 2012 calendar year is €117.29 million (2012 nominal prices), a 24% increase over the €94.72 million (2011 nominal prices) that was allowed for the 2011 calendar year.
- The allowed TAO revenue for the 2012 calendar year is €142.72 million (2012 nominal prices), a 12% decrease on the €162.64 million (2011 nominal prices) that was allowed for the 2011 calendar year.
- The combined allowed 2012 transmission revenue is €260.01 million (2012 nominal prices), a 1% increase over the €257.36 million (2011 nominal prices) that was allowed for the 2011 calendar year.

However, it is important to note that tariffs are not set on a calendar year basis. Consequently, interested parties may find it more useful to compare the

transmission AUP between tariff periods as discussed within Section 4 of this paper.

4.0 TUoS tariffs for 1st Oct 2011 to 30th Sept 2012

4.1 Background

In recent years, while allowed revenue has been set on a calendar year basis, TUoS tariffs have (in some instances) been set for periods that span two calendar years. The current TUoS tariff period covers the period 1st October 2010 to 30th September 2011. This means that the relevant portion of 2010 calendar year revenue and the relevant portion of 2011 calendar year revenue were allocated for recovery through TUoS tariffs during that period²⁶.

Similarly, within this paper the relevant portion of 2012 calendar year revenue and the relevant portion of 2011 revenue, have been allocated for recovery through TUoS within the 1st October 2011 to 30th September 2012 tariff period²⁷.

4.2 Transmission AUP for 2011/2012 Tariff Period

Therefore, based on the above annual revenues (allowed 2011 transmission revenue and allowed 2012 transmission revenue) and the estimated tariff period consumption of 26,400 GWh, the transmission average unit price (AUP) for the period from 1st October 2011 to 30th September 2012, is estimated to be approximately 0.98 c/kWh in 2012 nominal prices. This is an increase of 4.3% on the 2010/2011 tariff period transmission AUP. The rise can partly be attributed to the continued weakness in Demand expected for both 2011 and 2012 in ROI.

²⁶ 27% of 2010 calendar year revenue and 73% of 2011 calendar year revenue, based on the demand weighted average.

²⁷ 27% of 2011 calendar year revenue and 73% of 2012 calendar year revenue, based on the demand weighted average.

5.0 Summary

This Information Note paper outlines the application of the first PR3 yearly update (2012) to the PR3 transmission revenue. This revenue is to be collected during calendar year 2012 and will cover the costs of the TSO and TAO. The paper outlines:

- The TSO allowed revenue approved for the 2012 calendar year;
- The TAO allowed revenue approved for the 2012 calendar year; and
- The Demand TUoS tariffs approved for implementation during the tariff period from 1st October 2011 to 30th September 2012²⁸.

The total transmission allowed revenue for the 2012 calendar year is €260.01 million. This is 1% increase over the €257.36 million that was allowed for the 2011 calendar year. The total transmission allowed revenue for the 2011/2012 tariff year is €259.64 million (2012 nominal prices). This is a nominal increase of 3% relative to the equivalent revenue (€251.37 million) for the period 1st October 2010 to 30th September 2011.

The transmission AUP for the same period is estimated to be 0.98 c/kWh in 2012 nominal prices. This is an increase of 4.3% on the 2010/2011 tariff period transmission AUP.

The Demand TUoS tariffs that have been approved for implementation during the period from 1st October 2011 to 30th September 2011 are contained in Appendix A of this paper.

²⁸ The full Statement of Charges will be published by EirGrid under Section 36 of the Electricity Regulation Act 1999 before the commencement of the upcoming tariff period.

6.0 Demand Side Management

Separate to the transmission allowed revenue, the Demand Side Management (DSM) charge will allow EirGrid to recover €7.67 million associated with demand side management schemes administered by EirGrid for the period 1st October 2011 to 30th September 2012. The resulting DSM charge is €0.4153/MWh.

Appendix A - Transmission Tariffs 2011/2012

1.A Demand TUoS Tariffs for the Republic of Ireland

In deriving the TUoS Demand Tariffs which cover the 12 month period from 1st October 2011 to 30th September 2012 EirGrid has applied an energy based weighting to the tariffs derived from the transmission revenue for the full calendar year of 2011 and the full calendar year 2012. The Demand TUoS tariffs are shown in the accompanying schedules below.

The following should be noted when reviewing the table:

- Large Energy Users (LEUs) are defined as those on the DUoS tariff group DG7 and above and those connected directly to the transmission system.
- DTS-D2 customers are those connected to the distribution system and have a maximum import capacity (MIC) of less than 0.5MWs. Thus DTS-D2 customers have the potential to be classed as either LEUs or non-LEUs.

Schedule of 2011/2012 TUoS Demand Tariffs

Schedule		Charges	Charges
		2011/2012 to be charged to non-LEUs	2011/2012 to be charged to LEUs
DTS - T	Network Capacity Charge	€1,266.9458/MW ²⁹	€734.3218/MW
	Network Transfer Charge	€2.0646/MWh ³⁰	€1.1966/MWh
	System Services Charge	€2.9391/MWh ³¹	€1.7035/MWh
	DSM Charge	€0.4153/MWh ³²	€0.4153/MWh
DTS - D1	Network Capacity Charge	€1,061.4227/MW	€615.2006/MW
	Network Transfer Charge	€2.0646/MWh	€1.1966/MWh
	System Services Charge	€2.9391/MWh	€1.7035/MWh
	DSM Charge	€0.4153/MWh	€0.4153/MWh
DTS - D2	Network Capacity Charge	€4.3542/MWh	€2.5237/MWh
	Network Transfer Charge	€2.0646/MWh	€1.1966/MWh
	System Services Charge	€2.9391/MWh	€1.7035/MWh
	DSM Charge	€0.4153/MWh	€0.4153/MWh

The full set of Demand tariffs and application of these tariffs will be set out in EirGrid's published Statement of Charges to be approved by the CER.

1.B Generator TUoS Tariffs for the Republic of Ireland

The Generator charging methodology is currently under review by the Regulatory Authorities (RAs). A consultation on 2011/2012 Indicative Generator TUoS charges was published by the RAs in June³³. A decision on the all-island harmonised Generator TUoS workstream will be made by the SEM Committee in September 2011.

²⁹ Not applicable as all DTS-T connected customers are LEUs.

³⁰ Ibid

³¹ Ibid

³² Ibid

³³ Please refer to SEM-11-036 and SEM-11-037 [here](#).