ESB PES (Public Electricity Supplier) Proposed Tariffs for the period 1st October 2009 to 30th September 2010

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1.0 INTRODUCTION

1.1 Background

ESB Customer Supply (ESBCS) is licensed as the Public Electricity Supplier ('PES'). On 5th August 2009, ESBCS submitted a proposal to the Commission for Energy Regulation ('the Commission') for a review of its regulated fixed annual tariffs for the 2009 / 2010 tariff year. ESB Customer Supply has sought an average decrease in bills of 0.2%. The breakdown 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%.

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 January 2009 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.

The ESBCS submission is based on relevant costs incurred in serving its customer base for the 2009 / 2010 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.

As part of this consultation the Commission will review the ESBCS submission in detail to ensure that the tariffs are fair and reasonable for consumers and reflective of costs incurred by ESBCS. This review will include examining the appropriateness of the variance between the average impacts of the PES submission on the different tariff categories. The Commission would like to take this opportunity once again to reject the often repeated allegation that it keeps ESBCS prices artificially high in order to promote competition. The Commission has never done and will not do this. The Commission aims to set prices to cover ESBCS's efficient costs and a reasonable margin on its business.

1.2 Price Regulation

Since the market was fully opened in 2005, competition has progressively developed in the industrial and high energy user sectors of the market. In 2007, in line with the opening of the Single Electricity Market (SEM), the Commission concluded that there was sufficient competition in this sector of the market to remove price regulation. The Commission made a decision[1] to no longer regulate the tariffs of the large energy users (LEUs) on the same fixed annual basis as small and medium sized enterprises (SME's) and Domestic Customers. LEU customers of ESBCS are currently on a pass through tariff and charged for energy based on the prevailing SMP wholesale price in the SEM. Independent suppliers now hold up to 90% of market share in this sector and are actively competing for business. At that time the Commission signalled its intent to continue to monitor the development of competition in the lower sectors of the market to assess what the appropriate juncture would be for the removal of all regulated prices.

Since then competition has grown in the SME sector and in February 2009 the Commission welcomed the entry of Bord Gáis Energy Supply and Airtricity into the previously uncontested domestic market. The Commission considers a fully competitive market will deliver the best value to consumers and is fully committed to delivering full price deregulation in the short to medium term. However, the Commission is 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, ESBCS has lost just under 200,000 customers to BGE and Airtricity. This is only in the region of 10% of the market. Significant further customer gains need to be made by Independent Suppliers before the Commission would be in a position to allow ESBCS to actively compete to win back these customers. As such the Commission considers that it is appropriate to continue to regulate ESBCS's SME and Domestic tariffs for the 2009/ 2010 year.

[1] CER Direction to ESB PES on Electricity Charges to apply from 1 November 2007 – CER07191

However, as stated above, the Commission intends to move towards de-regulation and a fully competitive market, and will consult in the autumn on a 'roadmap' for de-regulation. This consultation 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. In parallel the Commission has already jointly published two consultation papers with the Northern Ireland Authority for Utility Regulation (NIAUR); A Review of K-factors and Supply Margins and Tariff Structure Review[2]. While the appropriate circumstances for the full implementation of the roadmap are outstanding, these two consultations will inform the Commission on more flexible retail market models which could be implemented in the short term.

1.3 Responding to this paper

Interested Parties are invited to comment on ESBCS proposals for regulated tariffs accompanying this consultation paper and the Tariff Methodology Statement by close of business on ***Monday 24th August 2009***.

As responses will be published in full on CER's website, respondents should include any confidential information in a separate Annex. Submissions on this paper should be forwarded, preferably in electronic format, to:

Fergus O'Toole,
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[2] Review of K Factors and Supply Margins and Tariff Structure Review Consultation Paper – CER09093

2.0 SUMMARY OF ESBCS's TARIFF PROPOSAL

2.1 ESBCS Tariff Methodology Statement

ESBCS's Tariff Methodology Statement for the period 1st October 2009 – 30th September 2010 is published with this document for comment.

2.2 Cost Inputs

ESBCS's proposal for regulated tariffs is seeking an average decrease of 0.2% across all regulated tariffs for the 2009/10 tariff period. This is based upon a number of cost factors including those set out below. A number of these cost inputs are still out to consultation and the final figures may be subject to change pending the conclusion of those consultation processes. In addition any significant changes in fuel prices during the consultation period will be reflected in the final tariff decision.

1. Network Costs

(i) Transmission

On Monday the 27th of July the Commission published the Proposed Decision on 2010 Transmission Revenue paper[3] along with an information note on the Electricity Network Tariffs Overview[4]. These documents outlined the proposed revenue for EirGrid over the next tariff period and outlined that there is a decrease of 8.3% in the revenue to be recovered. However given that consumption is forecast to fall by approximately 8%, the net result is that there will be no significant change in the average unit price for transmission tariffs.

(ii) Distribution

The 2009/10 proposed Average Unit Price (AUP) for Distribution[5] shows a 2.0% decrease from the equivalent twelve month period from October 2008 to September 2009. However DUoS revenues were re-profiled from May to September of this year to provide a decrease of 10.3% in the average final bill for domestic customers and SME's. This revenue is to be recovered in the forthcoming tariff period, the result of which is that there will be an increase in AUP for DUoS tariffs in the 2009/10 tariff year compared to the DUoS tariffs in place since 1st May 2009.

[3] Proposed 2010 Transmission Revenue Paper CER09115
[4] Electricity Network Tariffs Overview CER09117
[5] Proposed Decision Paper on 2010 DSO Revenue Tariffs and DLAF's - CER09116

2. Supply Costs

One of the costs factors that ESB CS has included in their tariff submission is the allowed supply cost for the tariff year. The Commission published a proposed decision paper on the ESB PES Allowed Revenue[6] on 31st July. This paper outlined the Commission's proposed decision on allowable costs of €159.9m for ESB CS in the 12 month period for 1st October 2009 to 30th September 2010. The original submission from PES detailed K-factors amounting to €81.15m. PES has proposed that the K Factors included in its submission, should not be recovered in the 2009/10 tariff period and they are not included in their present proposals. The falling market demand and increased levels of customer switching that have occurred in the past year have raised a number of issues regarding the suitability of the revenue model in its current format and the Commission stated that it is minded to disallow the recovery of these amounts in 2009/10.

3. Wholesale Costs

(i) Energy

The Commission, and NIAUR, have published regular updates on the progress of the hedging process and the level of hedges secured by the PES suppliers. As outlined in the third update on hedging[7] published on 31st July, ESB CS total hedges purchased for the 2009 / 2010 tariff year are 8,978GWhs which represents 80-85% of its total anticipated forecast demand. These hedges are the basis for the majority of ESBCS's energy costs for the 2009/10 tariff year and the directed contract prices are down approximately 40% on the previous tariff year.

(ii) Capacity & Imperfections

The indicative capacity pot consultation was published on the 1st July[8] . Based on the annualised fixed cost of the BNE Peaker and the Capacity Requirement for 2010, the Annual Capacity Payments Sum (ACPS) for 2010 is proposed to be €547.3M. The Market Operator Charges Price proposals were published on 20th July 2009, the consultation period is open until the 15th August. The Decision paper will be confirmed and published w/c 31st August.

[6] ESB PES (Public Electricity Supplier)Allowable Costs for the period 1st October 2009 - 30th September 2010 - CER09120
[7] Third update on hedging & work plan outlined in the 2009 retail tariff timetable – CER09121
[8] Consultation Paper on BNE Peaker for 2010 – SEM09072

4. PSO

The PSO levy is charged to all electricity customers and is designed to recoup the additional costs incurred by ESB 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 the Commission has no influence over their level, but simply calculates the amounts due under the schemes. The Commission published its decision paper on the PSO levy on 31st July[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.

2.3 ESBCS Proposed Tariffs 1st October 2009 – 30th September 2010

ESBCS's '*Proposals for Regulated Tariffs for Tariff Period 1st October 2009 to 30th September 2010'* is published with this document.

ESB Customer Supply has sought an average decrease in bills of 0.2%. The breakdown for various categories of customers is as follows:

	Domestic customers (typical household)	Small business customers (GP)	Medium business customers (LVMD)	**Overall average (all customers)**
ESB CS proposed price change	0%	-0.40%	-5.50%	**-0.20%**

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

3.0 NEXT STEPS

The Commission invites comments from industry participants and interested parties on ESB CS's tariff proposals, to apply from 1st October 2009. The consultation period will run until close of business on ***Monday 24th August 2009***.

The Commission will also facilitate an open forum on electricity and natural gas tariffs for 2009. This forum will be held on ***Monday 10th August 2009 at 10.00am*** in the Gresham Hotel, O' Connell Street, Dublin 1. Both ESB CS and Bord Gais Energy Supply will make presentations on the proposed tariff changes for the forthcoming period with time allocated for questions and answers. Further information on the open forum can be found on the CER website www.cer.ie.

The Commission will review the ESBCS tariff proposal taking into account input received during the consultation process and at the public forum. As set out in the AIP Decision Paper AIP/SEM/304/07[10] the Commission will continue to monitor changes in fuel prices and any significant changes will be taken into account in considering the possibility of any mid-year tariff adjustments.

[10] Regulation of ESB and NIE in SEM: A Decision Paper - AIP/SEM/304/07