



# G-TUoS Revenue Allocation

Consultation  
19 August 2020



## About the Utility Regulator

The Utility Regulator (UR) is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs, Markets and Networks. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.



### Our mission

To protect the short- and long-term interests of consumers of electricity, gas and water.



### Our vision

To ensure value and sustainability in energy and water.



### Our values

- Be a best practice regulator: transparent, consistent, proportionate, accountable and targeted.
- Be professional – listening, explaining and acting with integrity.
- Be a collaborative, co-operative and learning team.
- Be motivated and empowered to make a difference.



## Abstract

Today we publish for consultation our proposals regarding the allocation of revenues to the G-TUoS tariff pot. The current methodology has exposed some differences between revenue allocations in Northern Ireland and the Republic of Ireland.

The purpose of this paper is to align the transmission revenue being allocated to generators in the all-island G-TUoS tariff. Several options have been identified and investigated. The consultation also provides for a preferred methodology.

We would welcome feedback on any aspect of the paper and the proposed option. Written responses to our draft determination consultation should be received no later than 5pm, 14 October 2020.

## Audience

This document will be of interest to SONI, EirGrid, generators and electricity customers.

## Consumer impact

The proposals will not impact the overall amount of transmission revenue collected. However, there will be redistributive impacts on generators and NI electricity consumers depending upon which option is taken forward.



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# 1. Introduction

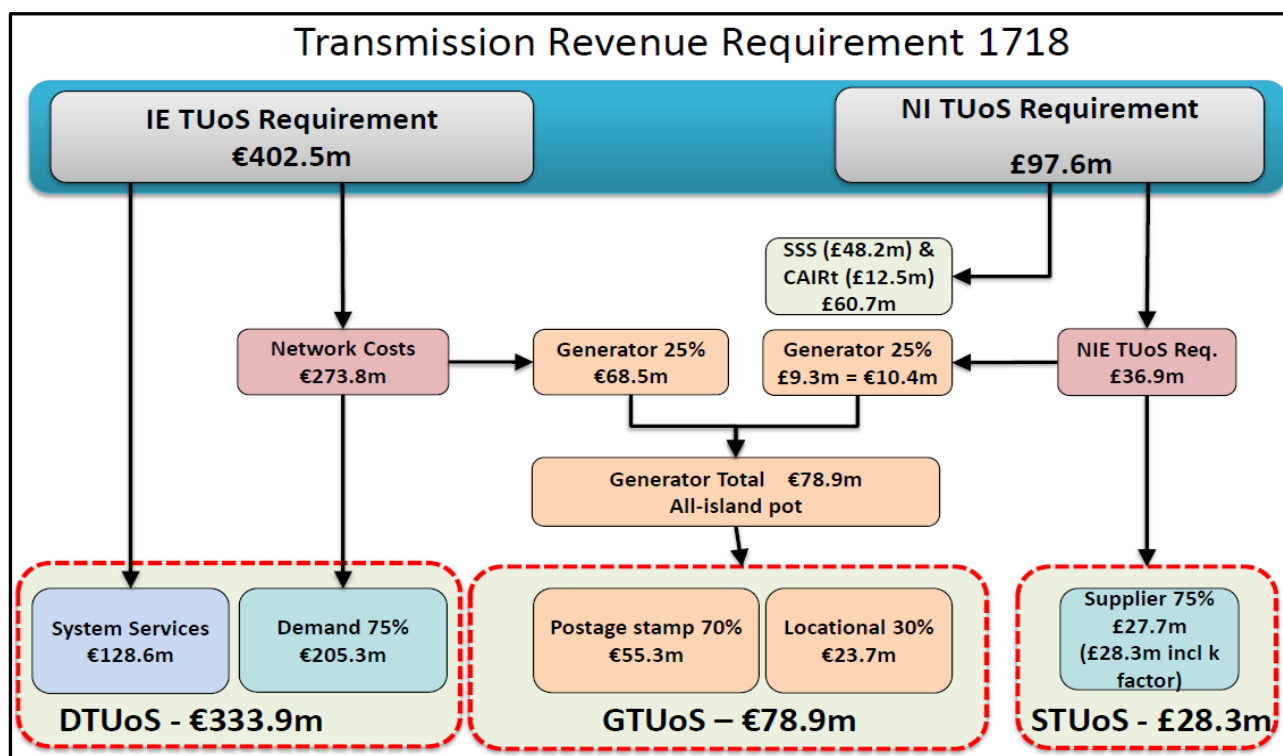
## Purpose of this document

- 1.1 Our role is to protect the interests of current and future Northern Ireland (NI) electricity consumers. A crucial way we do this is by ensuring that customers are charged appropriately for the service they receive.
- 1.2 The purpose of this paper is to align the transmission revenue being allocated to generators in the all-island G-TUoS tariff. Several options have been identified and investigated. The consultation also provides for a preferred methodology. It is however recognised that this will likely only be an interim solution until a full review of electricity tariffs is undertaken.

## Background

- 1.3 Transmission Use of System (TUoS) tariffs are designed to recover the costs of owning, maintaining and operating the electricity transmission network. In Northern Ireland (NI) this covers the revenue of NIE Networks as the transmission asset owner (TAO) and SONI as the system operator (TSO). In the Republic of Ireland (RoI) the respective companies are ESB Networks (TAO) and EirGrid (TSO).
- 1.4 The structure of transmission tariffs in each jurisdiction is slightly different but closely related. For NI, the relevant tariffs and revenues are split as follows:
  - 1) Generator TUoS (G-TUoS) – made up of 25% of *NIE Networks transmission costs* allocated to the all-island generator pot.
  - 2) Supplier TUoS (S-TUoS) – made up of 75% of *NIE Networks transmission costs* charged exclusively to NI demand customers.
  - 3) System Support Services (SSS) – 100% of all *SONI costs* (both internal and external) charged exclusively to NI demand customers.
- 1.5 For RoI the split is allocated as follows:
  - 1) Generator TUoS (G-TUoS) – made up of 25% of ESB and EirGrid *transmission network costs* allocated to the all-island pot.
  - 2) Demand TUoS (D-TUoS) – made up of 75% of *transmission network costs* and 100% of *system service costs* charged exclusively to RoI demand customers.
- 1.6 The tariff structure is represented by the diagram below for 2017-18.

Figure 1: 2017-18 Transmission Tariffs<sup>1</sup>



1.7 The methodology for all-island G-TUoS tariffs was established as part of SEMC<sup>2</sup> decisions in September 2011. The charges were to be set as follows:

- 25% of all-island *transmission network revenue* is collected from all-island generators.
- 75% of RoI revenue is charged and collected from RoI suppliers.
- 75% of NI revenue is charged and collected from NI suppliers.
- All billing and collection remain on a jurisdictional basis.
- Cross border financial flows will therefore be required to ensure each jurisdiction recovers their proportion.<sup>3</sup>

1.8 Taken at face value, methodologies appear similar in terms of percentages allocated to the all-island pot. The problem though is the make-up of costs that go into the G-TUoS pot and the definition of *network costs*.

### Misalignment Analysis

1.9 The issue of a potential revenue allocation misalignment first appeared with respect to an all-island TSO project where costs were shared between SONI and EirGrid.

1.10 For SONI, this meant 100% of their share being charged to NI customers through the SSS tariff. However, a proportion of EirGrid costs was allocated to *network*

<sup>1</sup> Diagram provided by EirGrid.

<sup>2</sup> SEMC = Single Electricity Market Committee.

<sup>3</sup> G-TUoS Decision Paper, [SEM-11-078](#), p26-27.

costs as opposed to system services.

- 1.11 As 25% of Rol transmission *network costs* get apportioned to the all-island generator pot, this meant a deviation from the agreed split. This is due to the fact that all-island generators are now paying a proportion of Rol revenue which is solely funded by demand customers in NI.
- 1.12 UR followed up with the Commission for Regulation of Utilities (CRU) who advised of the following Rol definitions:
- Network costs = 100% TAO costs + 60% TSO *internal costs*. 25% of network cost total goes to the G-TUoS pot. The remaining 75% of network cost revenue goes to D-TUoS.
  - System services costs = 100% TSO *external costs* + 40% TSO *internal costs* all of which are allocated to the D-TUoS pot.
- 1.13 CRU explained that:
- a) Before the G-TUoS tariffs were harmonized, only external EirGrid costs were recovered through system services.
  - b) As part of the 2008 harmonisation, EirGrid carried out an exercise to apportion network and non-network charges consistently with the split in responsibilities between NIE and SONI.
  - c) The definition of network costs was established noting that the responsibilities between TSO and TAO differed in each jurisdiction.
  - d) The exercise resulted in 60% of EirGrid's internal costs being apportioned to network charges, rather than 100% as previously.
  - e) Remaining 40% of internal TSO costs were applied to system services.
  - f) Approach was applied in the 2007-08 tariffs and has been the standard taken every year since then.
- 1.14 Given the historic differences in TSO activities, a network cost adjustment would certainly have been valid historically. However, since the transfer of the planning function to SONI in 2014, UR assumption is that TSO responsibilities north and south are now broadly aligned. As such, it is clear that the cost allocation methodologies are not aligned, resulting in redistributive impacts on generators and consumers alike.

## **Worked Example**

- 1.15 In order to consider the issue thoroughly, the 2017-18 tariffs have been analysed as a worked example. For SONI and NIE Networks, the revenue calculations are relatively straightforward. These are set out in the table below

**Table 1: NI Transmission Revenues and Tariffs in 2017-18**

Company	Revenue Split	Cost Type	Revenue Split	Tariffs	Revenue Split	Total % Split
SONI (incl. Moyle)	£60.7m	System Services	£60.7m	SSS	£60.7m	62%
NIE Networks	£36.9m	Networks	£36.9m	S-TUoS	£27.7m	28%
				G-TUoS	£9.2m	9%
<b>Total</b>	<b>£97.6m</b>	<b>Total</b>	<b>£97.6m</b>	<b>Total</b>	<b>£97.6m</b>	<b>100%</b>

*N.B. Figures are in 2018 prices*

- 1.16 All SONI costs are charged to NI consumers through the SSS tariff. For NIE Networks, 75% of their transmission costs are collected from NI customers through the S-TUoS tariff. This leaves 25% of NIE Network costs (approximately 9% of total NI revenue) being recovered from the all-island generators pot.
- 1.17 For EirGrid and ESB Networks, the situation is somewhat different.

**Table 2: Rol Transmission Revenues and Tariffs in 2017-18**

Company	Revenue Split	Cost Type	Revenue Split	Tariffs	Revenue Split	Total % Split
EirGrid	€174.9m	System Services	€128.7m	D-TUoS	€334.0m	83%
ESB Networks	€227.6m	Networks	€273.8m	G-TUoS	€68.5m	17%
<b>Total</b>	<b>€402.5m</b>	<b>Total</b>	<b>€402.5m</b>	<b>Total</b>	<b>€402.5m</b>	<b>100%</b>

*N.B. Figures are in 2018 prices*

- 1.18 As Table 2 indicates, network costs are more than those required for the TAO alone. A significant element (approx. 26%) of EirGrid costs has been allocated to the *network cost* category to be partially recovered from G-TUoS. This means that some Rol TSO costs are being recovered from all-island generators whereas all NI TSO costs are paid for solely by NI customers. As a consequence, 17% of Rol revenue in 2017-18 is recovered via G-TUoS charges.
- 1.19 It is not essential that the percentage of costs recovered from G-TUoS be identical north and south. This will naturally vary depending on the split of TAO / TSO revenues. However, the UR considers it important that the same types of costs are allocated to the pot using the same process. This does not appear to be the case following the transfer of activities previously carried out by NIE Networks to SONI.
- 1.20 It is the UR's assumption that SONI and EirGrid functions are now broadly aligned, since SONI now perform the network planning function. As such, it is quite difficult to see how Rol network costs and NI TUoS allocated to the all-island generator pot would be comparable at present.



## 2. Proposals

### Potential Options

- 2.1 In order to resolve the issue, four main options were considered as a potential remedy to provide alignment. These include:
1. **Option A** – Do nothing. Maintain existing arrangements.
  2. **Option B** – 25% of all TAO and TSO revenues (in Rol and NI) are allocated to the G-TUoS pot.
  3. **Option C** – Only TAO costs are considered as network costs, of which 25% are eligible for recovery via G-TUoS (NI methodology).
  4. **Option D** – SONI follows EirGrid methodology in allocating a proportion of TSO revenue from the SSS tariff to the G-TUoS tariff (Rol methodology).
- 2.2 *Option A* would see the retention of the existing methodology. Given that SONI and EirGrid functions are assumed to be largely the same, this treatment would continue to ensure NI and Rol misalignment.
- 2.3 *Option B* has merit in terms of its simplicity. No distinction between network and non-network costs would be required. It would also mean that a full 25% of transmission revenues be recovered from generators. However, it would result in a significant increase to G-TUoS charges and is unlikely to comply with SEMC decisions in 2011.
- 2.4 *Option C* is appealing in terms of simplicity. All TSO costs would be considered system services and paid via D-TUoS and SSS tariffs exclusively. A quarter of TAO costs would be allocated to G-TUoS. This would align EirGrid / ESB Networks with what is already happening for SONI / NIE Networks. It would however involve a shift in costs from generators onto demand consumers in Rol.
- 2.5 *Option D* would mean SONI following the EirGrid process and splitting TSO costs by network and non-network elements. The RAs<sup>4</sup> would need assurance that methodologies are equalised to ensure there is no cross-subsidisation between generator charges. This would align the process in NI with the cost allocation established at time of the G-TUoS Methodology decision.

### TSO Views

- 2.6 In December 2019, the UR and CRU wrote to the TSOs to seek their views on the issue and the potential options proposed. In summary, SONI views on the options were as follows:

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<sup>4</sup> Regulatory Authorities

- Current situation is imperfect and alternative options should be considered.
- Option B is a material change and unlikely to result in a more cost reflective network pricing structure.
- Option C is the most transparent of all the options and the easiest to implement from a SONI perspective.
- Option D would be cumbersome and require substantial work, while only producing a marginal increase in accuracy above Option C.
- From a SONI perspective, Option C provides the best balance between transparency and economic purity.

2.7 EirGrid responded to the options as follows:

- Do nothing will not resolve the current misalignment.
- Option B represents a significant departure from current practice, would require industry consultation and could result in a breach of EC guidelines. Issue may also be complicated by treatment of interconnector costs.
- Option C has merit in terms of simplicity though some differences may remain i.e. not perfect alignment.
- Option D is consistent with the charging philosophy, however strict alignment would be onerous, difficult to verify and is unlikely to result in any significant improvement in accuracy. It would also require year-on-year reconsideration.

2.8 As a result, EirGrid is of the view that it would be difficult to implement Option D in a timely fashion, so Option C is considered the preferred approach.

2.9 EirGrid did however highlight that this could only be viewed as a short-term solution as, *“tariff recovery would benefit from a wider review, via a consultation with market participants, and further technical, economical and regulatory input.”*

## 3. Preferred Option

### Pros and Cons

- 3.1 It is clear that Options A and B should be discounted. Option A does not resolve the issue while Option B would seem counter-intuitive. This is due to the fact that TSO revenues include ancillary service costs which contain payments from the TSO to generators for various services.
- 3.2 It would be counter-intuitive to then charge generators for the service they themselves provide. EirGrid also consider that this option would represent a significant departure from the existing revenue recovery principles for the electricity network and could also breach the guidelines specified within [EC 838/2010](#).<sup>5</sup>
- 3.3 Of the two remaining options, UR has reviewed the pros and cons of each as well as the impact on tariffs.

#### Option C

- 3.4 Under Option C (the NI approach), only TAO costs are considered to be network costs. All TSO costs are recovered via suppliers on a jurisdictional basis. The pros and cons of implementing this solution on an all-island basis are:

#### Pros

- a) Will provide general alignment.
- b) Relatively straightforward to implement.
- c) Preferred option of both SONI and EirGrid.
- d) May comply with the SEMC 2011 G-TUoS Decision Paper if TSO costs are not considered to be network costs.

#### Cons

- a) Will transfer some costs from all-island generators to RoI customers.
  - b) May not be entirely accurate i.e. there may still be some differences between TSO activities and responsibilities north and south.
- 3.5 The impact on network users of this particular option is detailed in the table below. Whilst the percentages only apply to 2017-18 figures, they do give an indication of the materiality involved.

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<sup>5</sup> See EC 838/2010, "Annual average transmission charges paid by producers in Ireland, Great Britain and Northern Ireland shall be within a range of 0 to 2.5 EUR/MWh".

**Table 3: Impact of Option C on Network Users**

Network Users	Impact
Generators	Would decrease G-TUoS pot by -14.6%
Demand consumers in NI	No impact as NI methodology is retained
Demand consumers in RoI	Would increase D-TUoS by +3.5%

Option D

- 3.6 Under Option D (the RoI approach), all TAO costs as well as 60% of internal TSO are considered to be network related, of which 25% would be allocated to G-TUoS. The remainder is recovered via suppliers on a jurisdictional basis.
- 3.7 The pros and cons of implementing this solution on an all-island basis are:

Pros

- a) Will provide general alignment north and south.
- b) Will likely have the lowest impact on tariff changes.
- c) Reduce costs borne by NI demand consumers.
- d) Would align the process in NI with the cost allocation established at time of the SEMC 2011 G-TUoS Decision Paper.

Cons

- a) May require review if future responsibilities change.
- b) Is not strongly supported by either SONI or EirGrid and would seem to add unnecessary complication.
- c) Does not appear to be a clear rationale to treat 60% of SONI internal expenditure as network costs and 40% as non-network.

**Table 4: Impact of Option D on Network Users**

Network Users	Impact
Generators	Would increase G-TUoS pot by +3.4%
Demand consumers in NI	Would decrease SSS / S-TUoS revenue by -2.7%
Demand consumers in RoI	No impact as RoI methodology is retained

## Tariff Proposal

- 3.8 Either of options C or D would be viable as an interim solution. UR is proposing in this consultation to adopt Option D and align with RoI. This is the preferred option as it will reduce NI jurisdictional charges and have the lowest impact on tariff changes. Furthermore, it is consistent with CRU views that some TSO costs should be considered as network related.
- 3.9 UR does not consider that this needs to be overly burdensome. Option C may be considered simpler. However, it is envisioned that adoption of Option D would be a mere mechanistic calculation whereby 15% ( $60\% * 25\%$ ) of SONI's internal costs will be allocated to the G-TUoS pot going forward.
- 3.10 For the avoidance of doubt, internal cost is defined as all TSO revenue excluding ancillary services (*At* term of the SONI licence). The K-factor adjustment would also be exempt from allocation to generators.
- 3.11 Whilst it is accepted that 60% of internal TSO costs is somewhat arbitrary, the percentage allocated to the pot is not the principal issue. Rather the key point is that both jurisdictions are aligned when considering the all-island allocation of charges.
- 3.12 It should also be highlighted that this option is considered to only be an interim solution until such times as a complete review of tariffs is undertaken.

## 4. Next Steps

### Consultation Responses

- 4.1 The deadline for responses to this consultation is 5pm on 14 October 2020. Responses should be sent to:

Jody O'Boyle
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED
<a href="mailto:Jody.OBoyle@uregni.gov.uk">Jody.OBoyle@uregni.gov.uk</a> and <a href="mailto:SONIUREGNI@uregni.gov.uk">SONIUREGNI@uregni.gov.uk</a>

- 4.2 UR preference would be for responses to be submitted to the above email addresses. We welcome feedback on any aspect of the consultation in particular the preferred option. Individual respondents may ask for their responses (in whole or in part) not to be published, or that their identity be withheld from public disclosure.
- 4.3 Where either of these is the case, the UR will ask respondents to supply the redacted version of the response that can be published.
- 4.4 As a public body and non-ministerial government department, the UR is required to comply with the Freedom of Information Act (FOIA). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain.
- 4.5 Hence it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this and in particular, if asking the UR to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.
- 4.6 This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact us and we will be happy to assist.