

# **Charges to Suppliers for Use of the Electricity Transmission**

## **Consultation**

**2 February 2011**

## Background

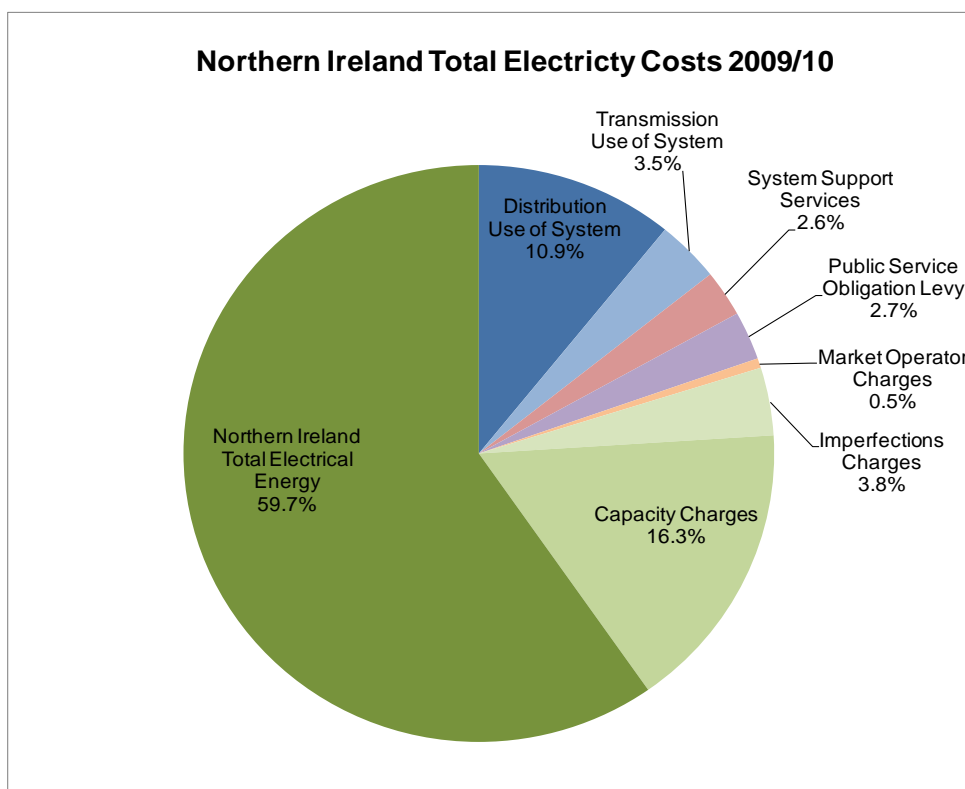
Following the introduction of SEM, the responsibility for calculating and collecting the Transmission Use of System tariff (TUoS) transferred to SONI from NIE. SONI used the NIE model to calculate the tariffs. The Utility Regulator approves the form of the charging statement that contains these tariffs. The transmission system is the electrical assets that are operated at 110 kV and above.

In 2009, annual variations in the input parameters to the NIE tariff model resulted in a significant increase in the off-peak charges and a reduction in the peak charges. The Utility Regulator considered this to be counterintuitive, due to the overall system benefits provided by customers switching consumption to off-peak times. Consequently, the Utility Regulator wrote to SONI to request a full review of the TUoS tariff model to ensure that the charges accurately reflect the costs that users impose on the transmission system.

In January 2011, SONI delivered a report to the Utility Regulator, summarising the responses received from its consultation and making recommendations for an updated tariff model.

The Utility Regulator is publishing this paper to summarise the recommendations made by SONI and to request comments on the minded to position included here. For information, the detailed paper produced by SONI and a summary of the responses received during its consultation process are attached to this paper.

In the 2009/10 tariff year, the TUoS charges made up 3.5% of the total cost to NI electricity consumers. The amount paid by individual consumers depended on their connection voltage and consumption profile.



## **SONI's Proposals**

SONI have made four proposals to the Utility Regulator. These are:

### **1) Tariff Bands**

The current charging method differentiates between customer groups based on connection voltage. Currently customers connected at high (33kV) voltage pay a lower amount for use of the transmission system than those connected at lower voltages (11kV, 400V etc.)

Every unit of electricity consumed in NI affects flows on the transmission system. The voltage that customers are connected at does not affect the amount of investment required on the transmission system, with one exception:

- Customers connected at a lower voltage cause more losses on the distribution system and therefore require slightly higher flows on the transmission system.

SONI can correct for these losses in two ways. They can either use loss adjusted flows (from the SEM systems) to invoice suppliers or publish tariffs that are multiplied by the loss adjustment factors. The use of the SEM data allows NIE to improve the accuracy of the loss adjustment factors (e.g. day/night or time of year factors) without triggering a re-design of the TUoS billing systems. These improvements are being considered under other work streams.

Higher charges paid by low voltage customers fund the lower charges levied to higher voltage customers. SONI do not consider this to be cost-reflective and propose to remove this cross-subsidy from the TUoS charges. SONI propose that the 2011 Charging Statement will contain only one tariff band. They will reflect the differences in distribution losses by using SEM settlement volumes (which are adjusted by distribution loss factors) to calculate the volumes billed to each supplier.

### **2) Time Bands**

Currently SONI levy the TUoS charges at seven different rates depending on time of day and time of year. SONI has undertaken network modelling to investigate if there is sufficient difference between the demands on the transmission system to justify this amount of complexity.

Based on these analyses, SONI proposes to reduce the number of time-bands to three. These are a simplification of the current time-bands used for DUoS & TUoS.

### **3) Cost Allocation Model**

The current cost-allocation model results in tariffs that are not compatible with SONI's proposed method of charging. SONI has built a new cost-allocation model, which it proposes to use to calculate the tariffs for the new charging structure. The model is discussed in detail in SONI's paper.

The model allows for an annual review of the percentage of load related costs and also the allocation of those to each time-band. This should result in tariffs that reflect the costs that customers impose on the transmission system in each period and should result in more accurate cost signals than the current model provides.

#### **4) Transmission Rebates**

Currently suppliers with a contract to purchase electricity from generators connected to the distribution system receive a rebate from the TUoS charges. SONI have reviewed the impact that these generators currently have on the transmission system. This review has shown that the majority of the distribution connected generation is located in remote locations and requires use of the transmission system to reach the main load centres. They do not offset flows on the transmission system, removing the justification for the rebate.

SONI propose to discontinue these rebates.

### **Impact on Customers**

The impact these proposals will have on customers depends on the connection voltage and consumption profile of individual customers. SONI have included an assessment for typical customers in an appendix to their paper. The impact can be simplified and summarised as:

- Customers connected at high voltage will probably see an increase in their tariffs as their cross-subsidy is removed.
- Customers connected at medium voltage should be relatively neutral to the change in tariffs.
- Low voltage customers, which include domestic customers in fuel poverty, will face lower TUoS tariffs as they will no longer be cross-subsidising higher voltage customers.

### **Utility Regulator Consultation**

The Utility Regulator is consulting on SONI's proposed method for calculating the TUoS charges, which would apply from 1 October 2011. The tariffs included within SONI's recommendation paper are indicative only and the precise values within the tariffs will be calculated in the summer. These will be based on the amount to be recovered under NIE's revenue cap for that tariff year and the proportion which is "load related".

The Utility Regulator considers that the use of the SEM data for billing suppliers would provide flexibility for applying time of day distribution loss factors without triggering re-design of the TUoS billing systems.

## **Responses**

The Utility Regulator welcomes comments on SONI's proposals and responses should be sent for the attention of Sarah Friedel before 5 pm on 16 March 2011 at:

The Utility Regulator  
Queens House  
14 Queen Street  
Belfast  
BT1 6ED

Email: [sarah.friedel@uregni.gov.uk](mailto:sarah.friedel@uregni.gov.uk)