



**Airtricity Initial Response to  
Transmission Tariff Methodology and Regulation in  
Ireland and Northern Ireland  
(A CAG Consultation)**

15 August 2008



## **Introduction**

Airtricity has been trying to grapple with the issues identified in the consultation paper published by CER on transmission tariff methodology and regulation in Ireland and Northern Ireland. But this process has been made all the more difficult by the separate but related issue of declining interconnector utilization which has been bundled with the consultation.

While we appreciate the interrelatedness of the issues, or however the impact the interconnector underutilization poses to any transmission tariff reforms, we believe the two should have been addressed separately.

Against the basic principle of matching, the interconnector utilization issue according to the consultation document spans a period of about 6 years, during which Corrib is fully operational, while the transmission tariff reform is being considered under the Common Arrangements for Gas, which is a more enduring provision. The biggest danger is that in trying to solve the up and close issue of interconnector underutilization, fundamental design principles may be overlooked in regard to tariff reforms.

At the very least, the declining interconnector utilization issue should have a solution that is very focussed on addressing just this issue, a solution which is also term-limited.

## **Principles to Consider for Transmission Tariff Reforms**

Fundamentally, Airtricity will be advocating that consumers are not made to carry an undue share of the costs of reforms while at the same time they should be able to point to some definite benefits accruing from the reforms.

Airtricity will also be advocating for a solution that is sized appropriately to the island of Ireland. While joining the two jurisdiction of the island creates a larger potential market, it is still in relative terms a small potential market, with the same geographic realities of few indigenous gas supplies and dependency of imports.

Following on this we would advocate for reforms that provide for enough flexibility in coping with the nuances of the two jurisdictions, but without being overly complicated.

## **Transmission Tariff Reform Options**

Postalisation: According to the consultation this option delivers the lowest tariffs to consumers. But the consultation also notes that this benefit accrues

in the short to medium term and even then these benefits are largely to consumers in Ireland.

This option could lead to various unintended consequences that would leave all consumers worse off in the medium to long term. For example it could lead to inefficient development of the network.

Splitting the consumer class into the two jurisdictions, the consultation shows that NI consumers will be exposed to higher tariffs without any major benefit to them, unless an additional mechanism for revenue transfer is developed.

Entry/Exit: Various options were assessed by the consultation under this category. While we do not intend to go into detail over these different options, the entry/exit methodology provides a modular architecture for tariff design that provides levers for 'tweaking' the market towards optimal operation. For instance charges can be moved from an entry point to an exit point or onshore charges can be weighted different at different exit points.

The options under this category range from single entry/single exit to entry points for every physical entry into the system/multiple exit. The progression we believe moves from simpler manifestations to more complex forms.

While we are still developing our thoughts in this area, Airtricity is of the view that at least two exit points, one each in NI and ROI, are required. This mechanism we believe will provide a straightforward means to minimise cost spill-overs from one jurisdiction to the next.

There is a specific impact on the SEM in that electricity generators in the different jurisdictions may be exposed to different charges, which introduces distortions into the electricity market. This can be catered for by creating a special category of exit that is virtualised (i.e. non-geographic) and relates only to gas-fired electricity generators.

Concerning entry regimes, Airtricity is still considering the short-, medium- and long-term impacts of the various options. While we would principally advocate that costs to consumers are kept to the minimum, we also keep in mind that Ireland is in the global competition for gas.

We will be further developing our thoughts in this area.

Capacity/Commodity Split: In principle Airtricity will argue for a higher commodity split. Our argument in this direction relates to the more positive impact on renewable policy, however marginal that may be.

## **Summary**

In this response, we have tried to give an initial indication of our thinking on this consultation. The various issues under consultation present a very thorny set to unravel, especially with the impacts in the short-term as opposed to the longer-term. We will keep developing our thoughts on this matter and propose to submit a more considered response.