



**Utility Regulator G-TUoS Revenue Allocation
Consultation**

EirGrid Consultation Response

14 October 2020

Introduction

EirGrid plc, operating as licensed Transmission System Operator (TSO) in the Republic of Ireland (RoI) welcomes the opportunity to respond to the Utility Regulator's (UR's) consultation on the All-Island Generator Transmission Use of System (G-TUoS) revenue allocations in Northern Ireland (NI) and RoI.¹ At present, there are differences between the All-Island G-TUoS revenue allocations in NI and RoI. There is currently no provision for SONI revenues in the All-Island G-TUoS tariff, whilst 15%² of EirGrid's internal costs are included.

The purpose of this consultation is to seek views on the following four options –

- A. Do nothing i.e. maintain existing arrangements.
- B. Allocate 25% of all transmission revenues in NI and RoI to G-TUoS.
- C. Include 25% of TAO revenues only under GTUoS i.e. RoI to align with NI methodology.
- D. SONI to follow EirGrid methodology in allocating a portion of TSO revenue from the System Support Services (SSS) tariff to the G-TUoS tariff i.e. NI to align with RoI methodology.

UR considers Options C and D to be viable options. UR proposes to adopt Option D as an interim measure until a complete review of tariffs is undertaken. UR has sought views on this proposal.

EirGrid Response

The Transmission Use of System Methodology³ established by SEMC in 2011 is based on principles of proportionality, fairness, facilitation of competition and non-discrimination with the overarching purpose to facilitate market access and to provide operational and investment signals to market participants. EirGrid believes the current methodology does deliver the desirable outcome, as set out in the regulatory decision. However, EirGrid sees merit in reviewing the current methodology following the transfer of a number of Northern Ireland Energy's (NIE's) responsibilities and network functions to SONI.

As a result, whilst EirGrid and SONI have functionality and scope which are broadly aligned, there remain differences between them which add complexity e.g. regarding maintenance

¹ <https://www.uregni.gov.uk/sites/uregni/files/consultations/2020-08-19%20G-TUoS%20Revenue%20Consultation.pdf>

² 25% x 60% x EirGrid's internal costs

³ <https://www.semcommittee.com/sites/semcommittee.com/files/media-files/SEM-11-078%20GTuoS%20Charging%20Decision.pdf>

policy and activities, client engineering and in terms of the treatment of assumed asset life, depreciation, financial returns etc.

In general, EirGrid maintains that expenditure associated with network investments and upgrades is best recovered via the associated network charges and that, as part of this, the G-TUoS element should recover expenditure associated with generators' access to the All-Island Networks and to the Single Electricity Market. However, going forward, further consideration should be given to the evolution of the power system and the energy transition in terms of tariff design.

EirGrid believes that this complex area requires further technical, economical and regulatory insight as part of a full review of tariffs. The scope of EirGrid's consultation response is however limited to the interim solution proposed to mitigate any misalignment of methodologies existing at present.

Option A - Do nothing

This approach would not resolve the misalignment. However, EirGrid understands the impact of this misalignment to be relatively immaterial on GTUoS in general and on NI generation in particular. As a result, EirGrid considers that Option A should not be ruled out at this time.

Option B - Allocate 25% of all transmission revenues in NI and RoI to G-TUoS

EirGrid believes that this option would represent a significant departure from the existing revenue recovery principles for the electricity network, requiring further public consultation. This approach would also increase the risk that the average transmission charges paid by producers in NI and RoI would exceed €2.5/MWh, resulting in a breach of the guidelines specified within European Commission Regulation 838/2010⁴.

EirGrid does not consider it appropriate to charge generators for the cost of system services at present. It is EirGrid's view that any future arrangements for system service cost recovery should take cognisance of the "causer pays" principle.

⁴ Per EC 838/2010, available at – <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:250:0005:0011:EN:PDF>
"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."

In addition, it should be recognised that in RoI, interconnectors may be supported via TUoS charges in accordance with the provisions as set out within the Electricity Regulation Act, 1999 (as amended). In NI, there is a separate Collection Agency Income Requirement (CAIRt) charge associated with the Moyle Interconnector. The implementation of Option B could result in the allocation of a portion of interconnector costs to network costs, which would seem to conflict with the objective of removing misalignment.

Option C - Include 25% of TAO revenues only under GTUoS

This approach has merit in terms of its simplicity and at a macro level it offers consistency across the two jurisdictions. Whilst some differences between the roles of SONI and EirGrid remain regarding network development and maintenance, these may not ultimately be material. If the UR is seeking a relatively straightforward means of removing misalignment then this approach may be the most straightforward. It would however require engagement with the RoI regulator, the Commission for Regulation of Utilities, and may require a re-working of the SEM Committee principles and may ultimately be a SEM Committee matter.

Option D - Allocate 15% of SONI internal costs to GTUoS

EirGrid believes that this approach is consistent with the philosophy of seeking to ascribe network based costs to G-TUoS. The consultation paper states that "*...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*". An exercise that would seek to strictly align the SONI and EirGrid inputs would be onerous and difficult to independently verify and would be unlikely to result in any significant improvement in accuracy relative to the current position. Assuming that the underlying collection arrangements in RoI remain unchanged and that the mechanistic calculation set out in UR's consultation paper is applied, EirGrid has no objection to Option D.

Conclusion

Revenue recovery mechanisms are intended to incentivise behaviours to meet wider social and political objectives and by their nature are complex. Whilst Option C is EirGrid's preferred option, EirGrid has no significant objection to Option D as set out in UR's consultation paper, recognising that any application of same would need to be proportionate in nature. In addition, EirGrid considers that Option A should not be ruled out at this time.