



**ESB Networks Ltd. response to  
CER/NIAUR consultation paper 09/093b**

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**ESB Networks Ltd.**

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## 1. OVERVIEW

ESB Networks takes this opportunity to respond to a number of the issues raised in the Poyry report entitled “Retail Tariff Structure Review”

Before responding to the questions raised, we would like to make some general comments on the future structure of DUoS tariffs which will provide a context for our responses.

In general, supplier tariffs, and their structure, are reflective of the charges facing the supplier. PES tariffs therefore shouldn’t be viewed in isolation from the *structure* of the DUoS tariff.

With likely future changes to the metering infrastructure, and the increased tariff flexibility which those changes will bring, the DUoS tariff structure may be changed in the medium term. Any future changes need to be considered when assessing any possible changes in PES tariff structures.

## 2. RESPONSES BY TOPIC

### ***Tariff Methodology Statement***

Section 2.2 of the report raises the issues of the methodology employed by the distribution company, and the fact that these are not published. ESB Networks is in favour of the publication of methodologies and would not object to any publication if this was deemed to be beneficial.

### ***Question 2 – Are there other aspects that should be covered by this review to the extent that it impacts PES retail tariff structures***

While the paper has identified the factors that impact PES retail tariffs at present, it only represents a snapshot of the here and now. It has not attempted to identify *future* factors that may impact PES retail tariffs.

While retail tariffs evolve over time in open markets, they do so relatively infrequently and incrementally. It is important therefore to anticipate future developments which may impact in tariffs, so these can be accommodated by any new tariff structures.

The network cost allocation methodology dictates the level of charges (or the revenues to be collected) per customer group, and is covered by the paper. However, the PES retail tariff *structure* is perhaps more sensitive to the structure of the DUoS charges, rather than the absolute level of these charges or the cost allocation per customer group. Our earlier comments on the DUoS tariff structure

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apply here – it is important to consider any future changes in the DUoS tariff structure, which the paper hasn't addressed.

There are further future factors that may impact on retail tariff structures, including:

- Potential impact of embedded micro-generation and sale of exports
- Electric vehicle rollout and customer charging points (e.g. domestic)

There are government targets for the future numbers of electric vehicles in Ireland. Customers with electric vehicles may have different consumption patterns, or there may be optimum times for these units to be charged (e.g. during the night) – these factors would need assessment in the context of retail tariff structures.

Any changes in PES retail tariff structure should be made with an understanding of future DUoS tariff structure changes that they may face. Suppliers will want their tariffs to reflect their underlying cost structure, and the DUoS tariff structure will be part of that total cost. It is therefore difficult to consider PES tariff structures in isolation from DUoS tariff structures.

***Question 5 – Would global aggregation provide a level playing field for the PES to better allocate its costs within its market structures?***

The design requirements for Global Aggregation in Ireland are as yet unknown. It is understood that there are a variety of implementation approaches that could be considered.

At a high level it is understood to mean for ESB Networks:

- the aggregation of import data for PES with the subtraction of Non Participant Generator Data that is registered to PES, in the same manner that such data is aggregated for all other Independent Suppliers
- the sending of all aggregated data from ESB Networks to the SEMO.

For ESB Networks to support the above would mean the aggregation of additional MPRNs for all the PES customers. This is not expected to mean a change in the design although this would need to be confirmed when the requirements for Global Aggregation are known. Due to the expected additional volume of data to be aggregated there would need to be work done to confirm the performance implications and if there are any additional costs.

Also understood is an industry requirement of support for the calculation, distribution, charging and payment mechanisms for the residual values between the Total System Demand in Ireland and aggregated Supplier volumes. Whilst the nature of this requirement and the implementation solution is not yet known, it is assumed that this will not impact on ESB Networks.

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***Question 6 – Would the creation of a common code of metering practice across both regulatory jurisdictions help in providing a basis of measurement that would facilitate harmonising retail tariff structures?***

ESB Networks are supportive of efforts to harmonise metering Codes of Practice. It should be noted, however, that the principal issue would be any differences in technical standard or capability between the meter population in the two jurisdictions. The combining of the different requirements in the current documents into a single document may be a useful first step.

With the smart metering project in place and a full rollout programme anticipated, the opportunity may present itself for the adoption of compatible meter specifications in both jurisdictions.

***Question 7 – Do you agree that the use of common profiles for class demands in both jurisdictions would help ensure the same allocation of wholesale costs when deriving retail tariffs, and provide the same incentives for the structures offered?***

The development of new common profiles based on load research will require a certain time-frame, as well as the installation of the required metering and data collection equipment.

If smart meters are rolled out, these can be used to gather up-to-date data and accurate load profiles, even for customer classes where half hour data is not collected. For these customers, a sample base could be used and actual half hour data collected, to create an accurate load profile.

It would seem more prudent to await the rollout of smart meters and to generate any required profile data at that stage, rather than create a new profiling project. With its own time requirements, a new profiling project will not be ready far in advance of any smart metering solution.

***Question 8 – Would the further segmentation of the SME sector of the electricity market and the creation of class profiles for these segments make PES tariffs more reflective of the underlying costs and also encourage competition in supply to these customers?***

As per the response to question 7, ESB Networks would not be in favour of creating new profiles in advance of smart metering technology being introduced to the market. The level of data available from smart meters (e.g. half hour data, or number of time registers used) will be a key factor in the level of consumption information available per customer group, which in turn will influence tariff structures.

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***Question 9 – Would the harmonisation of distribution use of system charges better facilitate competition in supply? Would the introduction of a pricing signal for higher distribution voltages provide a useful signal to encourage the appropriate location of distributed generation?***

The harmonisation of the distribution use of system tariff *structures* may be beneficial to supply competition.

Harmonisation of cost allocation methodologies may prove to be difficult in practice, due to separate price reviews, plans and costs, and capital charging policies, for example. In that context, we are unsure of any benefits from a common cost allocation model.

However, there may be benefits in harmonising DUoS tariff structures. While suppliers would face different charges in the two jurisdictions, the structure of the charges would be same. This would allow simpler billing systems and better facilitate competition in supply.

It is unclear how the use of a single cost allocation model with geographic price signals would make it easier for supply businesses to predict any under- or over-recoveries in network charges in any year and the related tariff adjustments in the following year. Any under- or over-recoveries, and tariff adjustments, are due to differences in forecast and actual data over a range of items, primarily demand and inflation, as well as adjustments for k-factors and revenue incentives.

Regarding the use of a geographic cost signal for distributed generation and load, there are a number of questions need to be posed: 1) Does a problem exist, i.e. is load, or generation, locating uneconomically? and 2) is the complexity of geographic price signals warranted, especially for load?

In general, load tends to locate where capacity is available, as the lead time to connection is shorter. Also the standard charges for connection to the distribution system contain a distance signal. We believe that the connection charge exerts more influence on the people who make the decisions concerning choice of site.

***Question 10 – Do you agree that the separation of charges for the provision of energy, and the use of the transmission and distribution networks would create an opportunity for customers to be offered more choice in the term of the energy component of its contract and the manner in which price levels could be revised? Should the PES simply pass on the network charges it incurs to its customer?***

The separation of the network charges needs to be considered according to customer classes.

ESB Networks would be in favour of the separation of any capacity components in the bill, as well as any penalties and power factor charges. A separation of capacity charges would be beneficial in helping the customer to manage their capacity as efficiently as possible.

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ESB Networks is also in favour of all customers being shown their MIC (and MEC if applicable) on their bill.

From a customer perspective, the separation of *all* the different components may make the bill overly complicated, especially the separation of all the components of an energy charge.

While at present the DUoS charges have only a small number of different components at present (standing, capacity and unit charges), any change in DUoS tariff structures which introduces more components (such as TOU unit charges, and/or TOU or peak capacity charging) will make full separation of network charges inappropriate for certain customer groups. Changes to the DUoS tariff structure may be introduced in the medium term, and would have implications for billing components in the event that the separation of components was already in place.

ESB Networks is not in favour of the separation of unit energy charges, as this would reduce the cumulative energy unit price signal. Any energy TOU price signal needs to be visible to the customer as the full cumulative price per period – including the DUoS charge. Any additional complexity of the bill leads to an increase in enquiries to call centres etc, with associated costs.

We also are of the view that the end user is concerned with the overall total cost of the energy units, and while a breakdown may be informative to a certain extent, does not provide any real benefit.

Without the separation of network energy charges, the supplier will still be able to offer energy hedge prices – the network charges would just be factored into the offering as an underlying cost, with pool price variation on top of this cost.

***Question 11 – Should customers be permitted to choose from fixed price energy contract terms that could vary from 6 months to 2 years, and which could also include indexation provisions that would help align retail and wholesale energy price? Should the PES be encouraged to offer such a choice?***

We are not fully clear as to why this requires the separation of the network charges on the customer bill. The supplier may offer a variety of energy contracts, where energy prices sit on top of underlying network costs. Such contract offerings could include adjustments to the price in line with the calendar year.

The alternative seems rather more complicated: separate network charges, with a different year end and date for annual tariff changes, alongside a separate energy contract with its own calendar. As well as the loss of a cumulative TOU signal, it also would lead to a more complicated billing structure.

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We believe that the supplier is in the best position to assess the various components and offer a contract based on those cumulative costs.

***Question 13 – Should the PES be encouraged to offer tariff structures with more time of use rates that reflect the underlying movement in wholesale costs and thus provide the customer with the choice of when it would be most economic to take its supplies of electricity? Would you support the replacement of maximum demand tariff charges and block kWh structures in existing tariffs by a time of use tariff structure.***

TOU tariffs which best reflect underlying costs, both wholesale energy costs and network costs should lead to a more economic use of energy and the network, resulting in an overall benefit to all sectors (producers, network operators and consumers).

In addition, tariff structures that incentivise the user to efficiently manage their capacity needs would have benefits.

The introduction of smart meters will make possible a wide range of different tariff options. We believe that these options should include price signals to the consumer to use the electricity system in an efficient manner.