Summary of Responses to the NI STUoS Review consultation

January 2011

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Introduction

The following six respondents submitted a response to SONI on the recent consultation on Supplier TUoS review for NI (NI/STUoS/2010/001)

SONI welcomes the views of all parties and have provided a brief summary of the points made by each respondent. In addition, SONI have commented in blue on how some of the issues raised by respondents might be address and have included a list of items which shall be further investigated on the request of participants. This summary document should be read in conjunction will the full response from each respondent. The respondents were as follows:

1. NIE Energy Supply
2. Energia
3. Respondent
4. SSE/Airtricity
5. NIE
6. Consumer Council

The responses were generally very positive and in favour of the new model proposed by SONI. A number of issues were familiar to the responses, the main issue highlighted is that the new time-bands are cost reflective of the investment drivers and address the current situation whereby winter peak times are used to recover all capital related costs. Participants wish to see justification for each time-band and for the costs allocated to each. Some of the main issues from each response have been listed below, however this does not cover all items that the participant may have raised. Table 1 below summarise the various responses to the specific questions that the consultation addressed.

Table 1: Respondents views on various questions raised

Respondent	The model will satisfy the objectives and deliver an enduring approach for NI	Energy only based charging or a combination of capacity and energy based charging is best	Support no longer charged on a voltage level basis	Charging at the transmission /distribution interface is workable	It is appropriate to include time-banding	Possible new time-bands should be adopted	Costs should be allocated to time-bands based on the costs associated with the existing network or based on the drivers of future investment, or both	Separate charges for fixed costs and non-fixed costs	Discontinuation of Transmission rebates is supported
NIEES	No comment	No comment	No comment	Yes	In principle Yes	No comment	No comment	Not necessary	No comment
Energia	Subjective[1]	Prefer Energy + capacity as this might be closer to an All island enduring solution	yes	Yes	Yes; should not include artificial profiling	No view	Perhaps dynamic costs if capacity + energy charging were to be applied. Otherwise existing costs if energy only charging.	Yes would improve transparency	Yes but would like to see results
A Respondent	Depends on time-bands etc	Prefer Capacity and Energy charging with capacity being dominant	No view	No view	Yes if can show link between Time Of Use and costs	Would like a limited no. of time-bands	Should be based on projections of generation and demand in future years	Yes	Yes but would like to see results
SSE/Airtricity	Yes	Energy only	Yes	Yes	Yes	Yes	Include some future costs	Not necessary	Yes on a phased basis
NIE	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment
Consumer council	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment	No comment

[1] Depends on factors such as how the time-bands are specified

Brief summary of each response received.

NIE Energy Supply

NIEES response was quite short and generally positive. A response was not provided to each of the specific questions. NIEES expressed that it is happy for the continuation of meter data for settlement of TUoS and has no problem with the application of scaling up by DLF's to the transmission/distribution interface, however they point out that this requires the "unbilled" element of settlement to continue. NIEES did not outline any concerns if alternatively SEM data was used for settlement.

SONI shall further examine the use of SEM data, as it may be a reliable alternative to meter data supplied by NIE.

NIEES raise the question of how effective a TUoS signal can be given as TUoS accounts for such a small proportion of a retail bill.

Responses from suppliers would suggest that time-of-use charging has an impact on behaviour. On average the charge equates to 3.1% of the overall retail tariff but this can be considerably higher depending on the profile of the user. It has been agreed by all stakeholders that TUoS charges need to be cost-reflective so that these can deliver a correct signal and ensure that those who impose transmission costs pay more for doing so. To send no price signal will lead to inefficiencies in transmission investment and hence higher costs for all users of the system in the long-run.

NIEES would like a requirement to provide each supplier with access to their own HH/NHH data feed that is used in the settlement of TUoS to allow for shadow settlement.

This issue shall be investigated further along with the possibility of using SEM data for settlement.

Regarding the separation of fixed costs and variable costs NIEES feels this is an unnecessary level of detail.

Energia

Energia's response was positive and contained some very worthwhile points. Energia would have liked more detailed information on time-bands but as we explained this work was and still is ongoing. Time-banding is an area that Energia seem to be interested in and many of the comments made in relation to time-banding are consistent with the time-band analysis that SONI is currently conducting.

SONI will make the results of the time-band analysis available however feel it is important that these results do not influence the methodology to be put in place. The tariff methodology should meet the agreed objectives and opinions should not be based on the likely tariffs to be delivered by the model and how any particular participant might fair.

Energia seem interested in an enduring solution being an all-island consistent methodology and point out that the NI new model should bear this in mind and not deviate further from what might be the long-term option.

There are no current plans or work underway for an all-island Supplier TUoS methodology. The aim of this review is to put in place an NI only model that delivers on the objectives set out in the paper.

Energia are keen that the results to support the allocation of costs to various time-bands are made available. It would appear Energia have concerns over the large Winter peak tariffs that currently exist and want to ensure that any new tariffs are not overly discriminate. They have concerns if time-bands are poorly specified because this is not cost-reflective. They would like justification relating to specific costs and differences between time-periods. Energia state "It is important that cost differences relate to differences in underlying marginal costs of transmission and that the resulting proposal is equitable."

SONI agree with many of the comments made, in particular a time-of-use model is not necessarily cost-reflective unless the time-bands are defined correctly and the costs allocated appropriately. The purpose of the detailed time-band analysis that is being carried out is to identify times-of-use, both now and in the future, that drive transmission costs and charge for these proportionally. Only by completing this details analysis can we ensure that the appropriate proportion of costs are allocated to the times-of-use that drive the costs.

Energies require time to implement changes to their billing systems; at least 3 months is required.

This is understood and providing the project stays on schedule this time will be available for all suppliers

Energies are keen that volatility will not prevail with the time-of-use tariffs

Stable tariffs are an objective of the methodology and in order to promote this SONI are also examining future network files as part of the time-band analysis to assess appropriate time-bands, and likely cost allocations to each time-band in 2015/16 so that any changing trends can be identified at this stage.

A Respondent

This respondent was in favour of the time-band analysis that SONI is conducting and the introduction of new time-bands. The respondent clearly feels that the current allocation of capital related costs to winter peak only is not cost-reflective and is keen that this is addressed in the new model. The respondent says "Time-banding in itself does not guarantee cost-reflectivity. It is our view that the existing STUoS tariff fails the test criteria for cost-reflectivity because the full capital investment costs are recovered within the Winter Peak periods alone"

The time-band analysis which is a very substantial piece of work will ensure that the new tariffs are cost reflective. Capital related costs will be recovered from all time-bands that are proven to drive capital investment. Winter peak will only be as high as the proportion of network investment that these are shown to drive.

Respondent states that maximum load flow analysis does not align with their understanding of the NIE position which suggests there is no link between investment and the need for additional capacity due to winter peak.

Again this is why SONI are conducting time-band analysis which is currently examining over 17 time-bands which cover all times of day and year, not just winter peak.

Respondent believes that introduction of Summer peak is philosophically correct and this is a step in the right direction towards smoothing investment costs across a wider timeframe. The participant would like Energy and capacity charge however believes an energy only tariff could be an acceptable compromise in the short term.

Respondent states that "There is a long held view across the electricity supply industry that the domestic customer base is a major contributor to the winter evening peak demand. However since these customers, amongst others such as farms and SMEs, do not have interval metering they cannot be charged on a SToD basis and therefore peak charges cannot be applied. However business customers with interval metering who cannot respond to winter peak signals are being unfairly charged for a significant portion of peak demand created by others. In the interests of non-discrimination and fair and equitable treatment of all customers winter peak rates should only be offered as a tariff option to those customers who can, and who choose to, respond to peak signals.

The use of SEM data would resolve this issue and this is currently being re-examined given that the main reason for not using it was that energy amounts would then not align with those used to apply DUoS charges; we are now aware that DUoS charges are under review and may change also so this is no longer an issue.

It should be noted however that the higher winter peak tariffs are accounted for, to some degree, in a flat domestic tariff. The domestic flat rate is currently calculated based on a profile allocation across the 7 time-bands, and the tariffs in each of the time-bands (STOD rates). An increase in Winter peaks at present will factor through to the flat domestic rate. We appreciate however that this a proxy and the same flat charge is then applied to every domestic customer and cannot distinguish between different users profiles.

Regarding the objectives this respondent feels cost-reflectivity is correctly set as the most important objective and the achievement of this will help deliver the predictability objective by reducing year on year fluctuations. A reduced number of time-bands would improve transparency and Model 3 as proposed, without the high winter peak rate, could deliver the objective of reduced volatility. The respondent would like non-discrimination set as the second most important objective – the respondent links this objective with what it describes as the current artificially high peak prices.

SSE/Airtricity

This is a very positive response. SSE say " We fully support the proposed tariff objectives used for evaluation and agree that Option 3 is the most appropriate transmission charging methodology to use going forward."

The current consultation does not propose locational charging however Airtricity/SSE would like to make clear for future that it is strongly opposed to the use of locational network charging regimes for either generation or demand. The following outline the main points in SSE/Airtricity's response and address each of the individual questions raised in the consultation paper.

- SSE/Airtricity believe the proposed Model 3 satisfies the stated objectives and should be used as an enduring approach for NI.

- Capacity charges based on individual customer's demands are difficult to justify on the grounds of transparency and accuracy. An energy-only SToD charging methodology therefore delivers a similar benefit to capacity charging, but without the complexity. We believe an energy-only SToD charging regime is superior to one based on capacity and energy, for reasons of simplicity, transparency and user incentives

- On balance we consider it preferable for SONI to set charges based on its forecast energy flows on the network it controls. It would seem to be a fairly pointless exercise to continue gathering the detailed tariff and consumption voltage data needed to maintain the current charging structure. In addition, it is by no means onerous for suppliers to derive tariff price offerings that scale metered energy to the T-D interface and this is normal in other markets in which we operate. Airtricity believe that a SToD transmission charging regime offers many of the benefits of more complex arrangements, in a manner that can be easily understood by users.

- It is essential that a full range of time bands is evaluated to ensure that a full understanding on network investment drivers is developed. For the sake of completeness we propose that summer weekdays should also be evaluated as a separate time band, as this is a time when network maintenance may result in unexpected investment effects. However it may be that the proposed summer peak band is intended to reflect this aspect of system usage.

This is the reason for the full detailed analysis of time-bands that is currently being conducted and which is analysis 17 times of day/year.

- We support the inclusion of an element of forward-looking investment as a more appropriate indicator of network costs than a purely historic assessment. Forward investment charging ensures that those who are going to use the system in the future are charged for a system that is being developed to meet their needs.

- Rather than an immediate termination of rebates in all cases, we believe the rebate should be phased out over three or four years and consideration should be given to retaining the payment on a site-specific basis. There may be an undesirable impact on microgenerators and we believe that this should be carefully thought through before a final decision is made. A possible

approach would be to reduce the 10MW limit to something in the 100-200kW range, for a fixed number of years.

Other points raised

- In terms of the introduction of this new tariff methodology, we believe that is essential to avoid step changes in customer charges; particularly in the current economic circumstances

- In terms of network development, we would welcome a debate on the balance between pricing to incentivise efficient use of the existing network and development of the network to meet the needs of electricity users, who have other considerations than merely network pricing incentives when choosing their location. We believe the issue of locational network charges therefore needs the input of a far wider range of parameters than have so far been mentioned to date.

- We would prefer the new charging arrangements to be right – even if delivered late, rather than on time and fail to meet the agreed objectives for an enduring solution.

- Another factor in support of billing TUoS ant the T-D boundary is that this will remove another drag on development of innovation in supplier retail offerings; requiring only changes to the data aggregation process and schema, rather than the additional involvement of another Party having only a tenuous association with final customers.

NIE

NIE response centred around one main concern which is the proposal by SONI for continued use of meter data for settlement of TUoS charges. NIE expressed concerns that SONI would remain reliant on NIE to supply the necessary billing data. No comment was made in relation to any other aspect of the proposed methodology.

SONI are examining the use of SEM data as an alternative to meter data for the settlement of TUoS charges. It was agreed with NIE prior to publication of the paper that the current provision of data from NIE to SONI for Supplier TUoS settlement would continue and if any new time-bands (such as summer peak) were introduced then disaggregated meter data could be provided and SONI would carry out necessary time-banding; this was an underlying assumption of the proposed model.

Consumer Council

It is the position of the Consumer Council that any decision about the regulatory structure of the Northern Ireland Energy Market should only be undertaken in the interest of the consumer. With fuel poverty levels in Northern Ireland reaching crisis levels, with one in two households struggling to adequately heat their home, it is important that the regulatory structures look to minimise the cost of energy to consumers. The Consumer Council seeks assurances from SONI that a full cost-benefit analysis is to be carried out on all the options and that the chosen option represents the most beneficial outcome for all consumers in Northern Ireland.