

ESB Independent Energy Response to the AIP Consultation “PES Retail Tariff Period Alignment in Both Regulatory Jurisdictions”

ESB Independent Energy (ESBIE) welcomes the opportunity to comment on the issue of tariff alignment in the SEM. This consultation is a timely and positive step on the path towards the SEM. In summary, ESBIE are broadly in agreement with the proposal to align retail tariffs to a 1st October-31st September period. There is a strong note of caution however since many of the benefits of aligning the tariffs may be lost if all the other cost drivers for retail tariffs within the control of the Regulators’ are not also aligned to the same period.

Alignment of the Tariff Period

The first issue raised in the consultation is whether or not it is appropriate to align tariff periods in the Republic of Ireland and Northern Ireland in the context of the SEM. ESBIE agree with the Regulators’ assertion that the key driver when considering this issue is the time period across which input costs arise. Key components of retail tariffs in both jurisdictions include the Market Operator Charge, the Imperfections and the Capacity Charge. These charges will be set on an annual basis and it is only possible to align this with a single timeframe for retail tariffs. If the retail tariff in either jurisdiction does not align with this timeframe, there will be a risk that the retail tariff does not recover or over-recovers. This over or under-recovery will ultimately feed through as a cost to customers (a working-capital cost or a loss in value due to inflation). To eliminate inefficiencies in pricing which would result from a misalignment of tariff periods ESBIE supports the Regulators’ proposal to align the tariff periods.

Reduction in benefits of aligning tariff period

It has recently been suggested at Regulators’ Communication forum in January that the systems upon which the SEM is being implemented, require that the Capacity Year must be set to align with the calendar year. ESBIE believes it is extremely important that the tariff period is aligned with the period across which capacity charges are set. To leave the capacity and retail tariff periods unaligned because the systems are currently configured in this way may prove short-sighted. Failure to align the periods is also something which will generate risk to suppliers, who will ultimately be forced to pass the cost of this risk to customers.

Favoured Approach

In aligning the tariff periods in the SEM, ESBIE considers that the proposed 1st October -30th September (Option 2) tariff year is probably the most appropriate, but only if the other drivers of tariff costs (Capacity, Imperfections, TUoS) are also aligned to this period.

Conclusion

The Regulators' proposed decision to align retail tariffs in both jurisdictions is a timely and welcome step. The current proposal to make this aligned period from 1st October- 31st September has considerable merit. ESBIE caution however that much or all of the benefits to aligning retail will be lost if the Regulators' do not also align this with the setting of other aspects of tariff costs which are within their control such as TUoS, SSS, Capacity, Imperfections and Market Operator Charge periods.