



An Coimisiún
um Rialáil Fóntais
**Commission for
Regulation of Utilities**

OPENING STATEMENT FOR JOINT OIREACHTAS COMMITTEE ON ENVIRONMENT AND CLIMATE ACTION

23rd January 2024

Good morning and thank you for inviting us to join you today. We are here to discuss the Large Energy Users rebalancing arrangements.

Context

As we have previously advised the Committee, this measure was originally introduced at a time of crisis along with a series of other measures to address some of the impacts of the Global Financial Crisis. In 2022 and 2023, in the context of the Russia-Ukraine Crisis and the consequential impact on energy prices, the CRU took a number of actions under the Government's National Emergency Security Framework package of measures, aimed at mitigating high prices for consumers.

The measures CRU took included:

- overseeing the implementation of the Government Electricity Credit on all domestic customer bills,
- enabling the implementation of a PSO payment for all customers,

- supporting peak demand reduction through changes to network tariffs and supporting ESBN in an acceleration of work on demand response,
- minimising network charge increases where possible in CRU tariff decisions, and
- unwinding the LEU rebalancing arrangements.

The CRU had previously signaled that it would review the LEU rebalancing arrangements. In preparation for this review, ESBN became aware, and notified the CRU, of an error in implementing the rebalancing arrangements. This error meant that more than the amount approved in the CRU decision was passed to LEU customers, whilst domestic customers paid a higher rebalancing amount.

In order to review and rectify this issue, the CRU conducted a close out reconciliation review in advance of determining the 2023/24 allowed revenues and network tariffs.

The CRU undertook its review of the error between April – June 2023, establishing the cause, total quantitative impact, and preferred solution for reconciliation, alongside the 2023/24 annual revenue process. The CRU subsequently published an Information Paper on our website on 31 August 2023.

The CRU considered a number of potential options for reconciling the error, with a view to compensating domestic customers as soon as possible for the overcharge. The CRU decided to compensate the domestic and small business customer groups immediately and in full in the tariffs set for 2023/24.

For LEUs, on the other hand, immediate reconciliation would significantly increase tariffs. The CRU therefore decided it was more appropriate to smooth out the LEU tariff increase over a longer period of three years. This option therefore substantially limits the tariff increase for LEUs in a single year while ensuring immediate compensation for domestic and SME customers.

The CRU requested the DSO to carry out tariff and bill impact analyses of implementing the selected reconciliation option.

This showed that, when the LEU reconciliation arrangements are considered in isolation, the domestic bill impact was a reduction of €54 on average. However, as the network tariffs were also increasing in that year, by €45 on average for domestic bills, there was a net decrease of around €9 in the distribution network element of a domestic customers' bill. As the transmission network charge was also increased by around €3 per domestic customer, the combined effect of this year's network tariff decision was a reduction of approximately €6.

For LEUs, the impact of this decision was an increase of circa 25% in the distribution charge, which combined with other increases led to an overall increase of, on average, 45.8% in distribution charges this year.

The network charge decision comes into effect on October 1st each year, which is often the period in which suppliers then adjust their overall tariffs for customers for the winter ahead. This tariff year, as wholesale gas and electricity prices had been

falling, suppliers announced bill reductions of between 10% and 30%, which would have encompassed this network tariff decision, along with decisions on other market charges, wholesale prices and hedging. The Committee will be aware that there have recently been further retail price reductions announced, which are welcome.

For next year's network tariff decision, there will be no further adjustment to domestic customers' bills related to this measure, while LEUs will continue the second year of reconciliation.

As a part of its review of the implementation error, the CRU asked ESB Networks to review its annual tariff governance arrangements. In June 2023, the CRU requested ESB Networks to submit a standalone report on the error, the lessons learned, and mitigation measures put in place to avoid a similar occurrence in the future. This report has also been published on the CRU's website.

The CRU has also strengthened its internal annual revenue and tariff review processes. The CRU updated the annual revenue models to improve controls, functionality, and transparency of the models, and held dedicated workshops with ESB

Networks on the tariff model for 2023/24. The CRU also built in a more thorough review of steps to ensure that the CRU's decision on revenue allowances were accurately implemented within the tariff model. This included additional cross checks on the adjustments being made to the tariffs to recover approved revenues.

The CRU also hosted a workshop with ESB Networks in December last year to further discuss mitigation measures and quality assurance procedures to be implemented for similar types of major changes to tariffs in the future.

This concludes our Opening Statement; we are happy to take questions.