

Policy Direction - Trading in Electricity

Introduction

1. The following is a Policy Direction issued by the Minister for Public Enterprise to the Commission for Electricity Regulation in accordance with Section 9(1)(a) of the Electricity Regulation Act, 1999.

General

2. The main objective of the trading arrangements is to promote efficient competition amongst licensed generators and suppliers within the market segment being opened to competition.

3. All suppliers (other than the Public Electricity Supplier) and all generators (other than ESB generating plant contracted to the Public Electricity Supplier) constitute the independent sector and will be subject to the same trading arrangements.

4. For a transitional period ending on 19 February 2005, a regime for the provision of "top-up" and "spill" will be introduced. Under this regime, the independent sector will be able to purchase power shortfalls ("top-up") from and sell power surpluses ("spill") to ESB Generation whenever the production of independent power producers does not exactly match the aggregate demand of the customers of the independent sector.

5. Generators and suppliers in the independent sector will be able to trade electricity amongst themselves at mutually agreed (i.e. unregulated) prices prior to settlement of aggregate "top-up" and "spill" with ESB Generation.

Pricing

6. The independent sector will in all normal circumstances be able to purchase "top-up" from ESB (Generation) in sufficient quantity to provide adequate backup supplies to the independent sector at prices that average out over the year to the estimated full cost of a best new entrant (BNE). These prices will be profiled according to published ex ante estimates of ESB's avoidable fuel cost, plus an extra capacity element weighted according to the expected loss of load probability (LOLP), at the appropriate time of day, week and season. The actual BNE price has yet to be determined.

7. The independent sector will be able to sell "spill" to ESB (Generation) at ESB's avoidable fuel cost for an initial tranche of 25% of total eligible customer demand. This is currently estimated to be approximately 200 MW in 2000/2001, but the figure will of course increase with eligible customer demand growth from 2001 and with further market opening in 2003. Any spill beyond the initial tranche will be priced at the best new entrant's avoidable fuel cost, subject to a cap of ESB's avoidable fuel cost.

8. ESB Generation, once it has satisfied its regulated contract with the Public Electricity Supplier and the top-up requirements of the independent sector, will be allowed to enter into voluntary commercial arrangements with independent suppliers, including ESB Independent Supply, subject to regulatory oversight and normal competition rules.

Review

9. Early in 2002, the Commission for Electricity Regulation will review the effectiveness of the pricing arrangements, which may be modified at that time if it is found that they are not meeting the main objective of the trading arrangements.

10. The Commission for Electricity Regulation will carry out a review of the overall trading arrangements early in 2004, with a view to introducing, after completion of the transitional period, appropriate wholesale market arrangement applying equally to all bulk electricity generation and supply in Ireland.

Next Steps

11. The Commission for Electricity Regulation will consult on the detailed arrangements associated with the transitional trading regime in accordance with the Electricity Regulation Act, 1999.