

ESB

Review of Electricity Trading Arrangements

6th February 2003



Market Development to Date

- Successful Supply Market
- New Generation Capacity
- Current Difficulties
- ESB welcome early review of arrangements

Objectives of the Trading Arrangements

- Primary Objective is Security of Supply
... at the lowest sustainable prices
- Minister's Policy Direction "*wholesale trading arrangements applying equally to all bulk electricity generation and supply in Ireland*"

tests

- An Enduring Solution
- Objective, Fair and Proportionate Regulation of ESB Power Generation and ESB Customer Supply
- Provide a basis for efficient entry of IPPs

Impact on Prices

- The Market Arrangement for new entry is predicated upon rising Wholesale Prices to Encourage Investment
- Safety net as proposed is Defacto entry means
- Time urgent investments likely to be more expensive than planned increments
- Added Complexity
- Prices higher than they otherwise would be

Requirement for a Capacity Mechanism

- Two Schools of Thought
 - Energy Only Market
 - Rely on wholesale prices rising to encourage entry
 - Energy plus Capacity
 - Separate prices for Capacity and Energy
- Current Proposal is Energy Only Market coupled with a Safety Net
- Is the Safety Net Sufficient / Efficient ?
- Structured Capacity Mechanism Preferable

Regulating ESB's Position

- Accept the need - we are a significant participant
- Consultation does not provide details
- Regulatory uncertainty poses significant risks for all
- Regulation of ESB must provide a basis for
 - ESB to purchase energy from third parties
 - ESB to sell energy to third parties

Location Marginal Pricing

- Very complex - many questions arise
- Removal of “constrained off” payments increases investment uncertainty
- Consistency with uniform national tariffs
- This approach needs to be carefully modelled

Conclusions

- We believe a structured Capacity Market applicable to all is essential
- Basis for Regulation of ESB is Fundamental and must be Clarified in the same timescale as the Trading Arrangements
- Need to consider the overall cost benefit to the market
- Important - we must get it right