ESBIE Response To CER Consultation On ESB PES Tariffs And The Transition To The SEM

ESB Independent Energy welcomes the opportunity to comment on this consultation paper regarding the setting of ESB PES tariffs for 2007. It is stated that 2007 is proposed to be a transition year with the advent of SEM and bearing in mind the significant workload that this entails then ESB Independent Energy would support a solution to ESB PES tariff setting for 2007 that minimises market risk and CER workload.

Comments on Issues Raised in Consultation Paper.

In section 3.4 the statement that generators hedge their fuel positions at the point when top-up and spill prices are set in October is not necessarily always correct. Generators will continuously be looking at their fuel positions with regard to sales and market conditions.

There is an assumption in section 3.4 that mid merit and peaking plant contracts will be made available by ESB PG and NIE PPB. However there is no explanation in this paper or in any of the existing SEM work streams as to how this will be catered for.

The paper outlines four options which may be considered for ESB PES tariff setting in 2007. Each of these presents a number of difficulties –

The option of extending the 2006 tariffs for the first six months of 2007 would cause great difficulty for the Independent Sector. PES tariffs act as a benchmark price and the present tariffs were set on the basis of gas prices in Summer 2005. These benchmark prices are significantly below real gas market prices (including the October 2005 gas contracts). Simply extending the current tariffs would be totally unacceptable as it completely ignores real input costs for independent generators, who do not have allowable revenues.

Three of the options are not robust to a slippage in the start date for SEM. Given the very challenging time scale for this major project – such slippage must be assumed to be a major risk.

Additionally all four appear to require a change in legislation to cater for the new proposals. It is doubtful whether this legislation can be enacted in the available decision time.

An alternative option which has not been proposed but which could well allay many of the risks associated with the transition to SEM is to use the existing PES tariff setting process for the full calendar year 2007. This would remove the present risks of market distortion for Independents and align the PES tariff to the annual contract round of the Independents. The setting of tariffs for 2007 in the usual way would allow for and not let any slippage in SEM implementation to affect the market. Opting for this method would
result in the PES tariffs running for the second six months of 2007 (under SEM) based on the existing methodology. PES tariff can be derived from the SEM methodology from January 2008.

**Conclusion.**

As can be seen from the paper there is significant risk in all four options put forward. A concrete assumption in the paper is the July 2007 start date for SEM but then one of the measures used is robustness against SEM start date slippage. ESB Independent Energy believes that a preferred option to cover these risks is to set ESB PES tariffs for 2007 as per the existing methodology to give the market confidence for the full year and then to use the SEM based method from January 2008 onwards.