Dear Caroline

**ESB PES Tariffs and the transition to SEM**

CER’s January 2006 consultation paper examines the potential impact of the introduction of the Single Electricity Market (SEM) in July 2007 on the process for setting ESB PES tariffs for 2007. CER seeks views on the four different options for the transitional arrangements as set out in its paper.

Rather than offering specific comments on each of the options, NIE wishes to respond simply by noting that the same issue of how best to make the transition to SEM also arises in setting NIE’s PES tariffs for 2007/08. There are a number of structural and procedural differences which may, or may not, merit a different approach being taken in NI.

For example, in NI the tariff year runs from 1 April to 31 March, so the transitional tariff year divides differently into the pre- and post- SEM periods. NIE does not own any generation assets and NIE PES purchases all of its wholesale requirements from NIE PPB. A separate price control permits PPB to recover the costs of the legacy generation contracts, subject to an economic purchasing obligation, and regulates PPB’s sales of wholesale energy. The components of NIE PES tariffs relating to wholesale energy, transmission and distribution charges, public service obligation charges and system support services charges are treated as pass-through (since they have been price regulated upstream), and the PES price control effectively focuses on the retail margin.

As progress is made in defining the transitional arrangements for NIE PES tariffs there would be merit in examining whether a common approach to the transitional arrangements is appropriate, or whether the approach needs to be tailored for each jurisdiction.

One of the points we will be raising with NIAER is the strong competition that exists for supplies to HV customers in the NI market where c90% of the 350 HV customers are now supplied by second tier suppliers. This justifies removal of the requirement for PES tariffs for this sector.
Yours sincerely

[Signature]

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