ESB PES 2007 TARIFFS AND THE TRANSITION TO THE SEM

Synergen’s Response to Response to CER/06/002

1 Introduction

This paper is Synergen’s formal response to the document published by the CER on 16th January 2006, CER/06/002 - “Consultation Paper - ESB PES TARIFFS AND THE TRANSITION TO THE SEM. Synergen has no objection to this submission being published by the CER via http://www.cer.ie.

2 Background

CER/06/002 states that “… the ESB PES tariff remains the benchmark price for the competitive generation and supply markets.” As an independent generator, selling into the independent supply market, Synergen’s revenues are influenced by prices set under regulated arrangements. Consequently, Synergen is very keen to see retail tariff arrangements that represent a robust and defensible ex-ante view of energy input prices for 2007. Synergen also believes that a regime for tariff setting should be put in place for 2007 for all customers and it must provide certainty to all stakeholders. Synergen notes that the 2007 ESB PES tariff is linked to aspects of the existing wholesale trading regime for 2007 (spill price floor / level and profile of Primary and Secondary Top Up / CRSP / Regulation of ESB Power Generation INC/DEC bidding). Synergen believes that the CER’s overall approach should be internally consistent across all of these interrelated activities.

CER/06/002 considers four options as follows:

**OPTION A.** Hybrid Approach;

**OPTION B.** Tariffs based on market-based approach for all of 2007;

**OPTION C.** Tariff period extension – extend 2006 tariff decision until SEM commences in July 2007; and


Rather than address the issues for each of these in turn, the remainder of this paper outlines a few keys issues that are directly relevant and then presents some final conclusions.

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3 Market Integrity

The competitive supply market in RoI provides Syenergen with a retail outlet for its product and thus Syenergen seeks to ensure the integrity of the competitive supply market in the transition to the SEM.

“OPTION C” and “OPTION D” envisage split tariff regimes for 2007 i.e. two separate six month tariffs. Syenergen is concerned that this discontinuity in tariffs may undermine market confidence in the sector. Furthermore, this disjointed tariff arrangement would give rise to significant increases in resource requirements and transaction costs in the run up to SEM start as stakeholders are forced to re-negotiate contract prices / terms for the second six months of 2007 at a critical period in the SEM project before go live on 1st July 2007. Consequently, this split tariff arrangement appears to increase the risks to the SEM project, if critical resources are diverted to short term arrangements.

\textit{Given the issues outlined above, Syenergen believes OPTION “C” and OPTION “D” are not viable.}

4 SEM Scope

At present there are two weakly interconnected markets in NI / RoI with general cost separation i.e. nearly all RoI costs are allocated solely across RoI customers and visa versa.

Under the SEM, there will be a fundamental shift in the electricity sector across the island of Ireland; the SEM encompasses both jurisdictions into a single market thereby creating stronger links between NI / RoI. In particular a significant proportion of generation costs will be allocated across all customers in proportion to consumption. Using a SEM based methodology for the first six months of 2007 within the 2007 ESB PES Tariff will lead to a discontinuity between costs and revenues given the limited cost relationships between NI / RoI at present. However, it is vital for the assessment of PES tariffs for 2007 to reflect SEM cost base from 1st July 2007 onwards.

\textit{Given the issues outlined above, Syenergen believes OPTION “B” and OPTION “C” are not viable.}

5 Modelling Issues

A robust assessment of SEM costs for the period 1st July 2007 to 31st December 2007 will require the CER to model SEM outcomes. However, the AIP have not demonstrated the ability to model SEM market outcomes – indeed deadlines have been constantly missed.

In order to give confidence to the 2007 ESB PES tariff setting process, the CER’s SEM modelling must be both robust and transparent in terms of the chosen model and data assumptions. The CER will need to take a view on all aspects of SEM costs (e.g. SMP / constraints / CPM / ancillary services / losses
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/ CFD position / SEM Development costs / MO fees) and the NI / RoI split of these costs. Synergen is also concerned that the CER may not be gain access to all NI data given restrictions in the current licensing / legal regime in NI. The CER will also need to assess a range of other key items such demand forecasts and system losses. Furthermore, there appears to be interaction between the CER setting a 2007 ESB PES Tariff and the implementation of the SEM dominance strategy\(^2\) by the Regulatory Authorities. These interactions should be clearly defined.

Consequently, whilst modelling may be required to accurately determine 2007 tariffs, it is not presently clear that:

- there is a robust model;
- there are well determined scenarios; and
- market behaviour can be modelled.

*Given the issues outlined above, Synergen believes that the modelling of SEM outcomes by the CER requires a step change in demonstrable modelling capability. It is necessary that the model and its working are transparent; the assumptions are understood and considered reasonable.*

6 Summary

*Given the issues outlined in this paper, Synergen believes:*

1. *only OPTION “A” (Hybrid Approach) is viable; and*

2. *the implementation of OPTION “A” is not straightforward give failures of SEM modelling to date.*

*Whilst Synergen supports OPTION “A” in principle; it is incumbent on the CER to address the modelling concerns raised. Synergen suggests that the CER addresses these concerns at a public industry forum at the earliest opportunity.*

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