ESB PES TARIFFS AND THE TRANSITION TO THE SEM
Report on the Consultation and Draft Decision Paper
CER/06/022
ESB Independent Energy Ltd would like to make the following submission on the consultation regarding setting ESB PES tariffs for 2007.

Timescale.

ESB Independent Energy Ltd is fully aware of the tight timescales that CER are facing in putting in place an agreed methodology for setting PES tariffs for 2007 in conjunction with the significant workload being undertaken for SEM. However we feel that the limited time being given to this important transitionary arrangement should not lead to a solution that is clearly not supported by market participants as can be seen from responses to the initial consultation. ESB Independent Energy Ltd would suggest that in the interest of all market participants and in arriving at a solution that is workable and fair an industry workshop/forum should be held to debate the issues as soon as possible.

CER Proposed Decision

The CER are proposing to have an amended option D as the preferred method for setting PES tariffs for 2007 an option which was not supported by any of the respondents. This option will have two tariff periods in 2007 which will be on existing methodology for the first six months and based on SEM market prices for the second six months.

In CER/06/022 the comments of all respondents are outlined and a common factor arising which the CER itself agrees with is that to have two separate tariff periods in 2007 is unsatisfactory. A two tariff period will lead to suppliers having two sales periods in 2007 with its inherent overheads. From a customers viewpoint this will appear as two price changes in one year of which the second is being caused by SEM. As all market participants are facing the onset of SEM and its required systems workloads then to have another sales round occurring at the same time is not the ideal solution.

ESB Independent Energy Ltd’s comments on this proposal are based on the AIP programmes consultation for Market Power Mitigation that some form of
forwards contracts, be they directed or market contracts, would be in place for the beginning of SEM. These would allow suppliers to hedge their positions for the beginning of SEM. If such forwards contracts are not available then we fail to see how any supplier can contract with customers beyond July 2007 if the PES tariffs are based on forecast SEM Market prices for the period July to December 2007. The modelling work being carried out at present for SEM is not based on market costs and significant work is needed to allow for any forward contracts to be struck in the summer of 2006 to allow for the PES tariff to be constructed as per the option chosen by CER.

**Alternative Option**

In its initial submission ESB Independent Energy Ltd put forward an alternative option for setting PES Tariffs for 2007. This involved using the existing methodology for PES Tariff setting i.e. setting regulated Top-Up and Spill prices along with generation, networks and ESB PES costs for the full year 2007. We believe that this has the advantage of giving the market a basis for operation in 2007 with which it is familiar and hence can operate as normal and also get ready for SEM.

CERs concern at this proposal was the undermining of the SEM go-live date of July 1st 2007. However ESB Independent Energy Ltd believes that this proposal can be adopted without affecting that date.

Under the tariff setting proposal regulated top-up and spill prices for 2007 would be set as normal. For the first half of 2007 the market would operate as normal. On SEM go-live the regulated top-up and spill prices could then be converted to CfD type arrangements for suppliers. Also the regulated Top-Up and Spill prices can be used as benchmarks against which the ESB PG and ESB PES costs/revenues could be measured against the costs/revenues from the Pool and any over or under recovery subsequently corrected for.

ESB Independent Energy Ltd believes that this proposal has merits for all market participants and in a time of transition then its ease of implementation will reduce the complexity being faced by all market participants.