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16<sup>th</sup> December 2011

Dear Jerry & Richard

**RE: CER/11/206 – Mitigation Measures to Address Potential Capacity constraints at the Moffat Entry Point in 2013/14.**

Thank you for taking the opportunity to discuss the issues presented in this document at the Gas & Electricity workshop on 12<sup>th</sup> December. ESB was disappointed that there was no party present from the Northern Ireland Regulator so that issues relating to SEM could have been discussed. We are also disappointed that the consultation period is so short. Given the high level nature and limited time to consider the proposals our response is also very short, and we only comment on what we consider the most important issues.

ESB has agreed to meet with you to discuss, at a high level, some of the proposals you have presented. ESB looks forward to this additional meeting.

ESB agrees with your principles and any solution – due to its contingent nature - must be proportionate and economic.

The proposals set out include:

1. Flip Flop – ESB would not support this arrangement in the South. It is unclear how an efficient solution can be determined across the island by having stations having alternate running.
2. Proposals that Gaslink contract with CCGT directly – given that ESB is directed by EirGrid when to operate and to switch its fuel type under emergency cases ESB cannot facilitate this service.

In relation to point 2 above ESB:

- Welcomes the action to consider how the costs of fuel switching should be reflected in the SEM price. This requires the timing and pricing to be fully considered, with the opportunity cost of operating an alternative fuel being fully compensated for.
- Considers that by having the opportunity cost reflected in the SEM price it will also send out the correct signal to storage facilities on which to price the provision of their storage service.
- Notes that the 2013/14 contingency plan is based on the constraint at Moffat but an additional driver being the withdrawal of the storage facility at Inch. This is at odds with historical storage provisions indicated in gas capacity statements and is also at odds with the intent to use a

physical reverse flow product in 2016. The basis and firmness of this assumption should be reviewed.

3. Mandatory requirement to purchase storage – ESB would not want mandatory requirements placed on participants to support a commercial venture. The market should determine a solution and that solution needs to be driven by creating the correct price signals.

ESB believe that any arrangements that the CER wishes to make available for the continued commercial support of the Inch storage facility must be transparent and competitive. No mandatory requirements should be placed on the industry participants as these are commercial investments and the contingency is to offset a 1: 50 year event.

4. Capital investment and PC3 - a tight deadline of 16<sup>th</sup> December is driven by the need for the capital investments to be costed and included in the Price Control for review.

As the price control determination is usually the culmination of several consultations and scenarios ESB does not see this as a constraining factor unless the build is to be started in January 2012 – whereas this decision is made outwith the PC3 process. ESB relies on the RAs to undertake diligent price reviews with effective consultation of the proposals with the asset owners and operators.

Any approved investment must be necessary and cost effective.

In addition ESB wishes the RAs to consider the following:

- The impact of opening the north south interconnector and its significance in the context of this consultation
- The emergency arrangements across the island of Ireland
- The equal treatment of plant that provide for fuel switching capability across the island of Ireland and for the SEM to reflect this service.

In conclusion, while wind intermittency is considered to be a problem for the system operator, its resolution is best supported at an aggregate level and not at an individual station level where forecasting is not the driver but the dispatch by EirGrid is. The costs of the provision of these services (standby costs and actual activity) must be reflected in the price paid for the service and reflected in the SEM.

As liquidity is an important measure for the success of the competitive market, trading should not be curtailed by system operator restrictions or re-nomination controls.

Ensuring that the price of SEM fully includes the cost of emergency provision it will provide the correct signal to those intending to invest, or continue to offer, gas storage services.

I look forward to meeting you in the New Year.

Yours Sincerely,

Jagtar Basi

Economist  
ESB Energy International  
ESB Head Office

By email.