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## **ESB Electric Ireland Response to SEM Consultation on the 2011-12 Contracting Process**

**Dear Andrew/Colin,**

### **Introduction**

ESB Electric Ireland welcomes the opportunity to respond to this consultation document and notes that the Regulatory Authorities are seeking responses to two questions in particular relating to the volumes of PSO NDCs and the timing of the PSO Backed NDC auctions.

ESB Electric Ireland warmly welcomes the fact the Regulatory Authorities have decided that the PSO-backed NDCs will be offered this year as they are a valuable element of the secondary trading market in the SEM.

### **Response to Specific Queries:**

#### **Increase in Regularity of the PSO-related CfD offerings**

The increased frequency of PSO-backed NDC auctions and the extension of the auction process over the full year has been a welcome development. Electric Ireland suggests that there are some further changes to the timing of the PSO auction process which would further help to mitigate the risk of short term movement in the fuel and FX markets.

- It is suggested that two PSO related auctions be held each month. In these auctions product for delivery in the current and near quarters would be sold on a monthly basis and product further out sold on a quarterly basis.
- Furthermore, it would be beneficial if PSO-related NDCs could be offered for periods beyond the forthcoming tariff year so that products were sold on a continuous rolling basis with a window length of 12 to 24 months. This would assist all supply companies in taking a longer term view of their hedging processes and reduce volatility in their underlying cost base. It would also

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remove any future uncertainty relating to the availability of the PSO-related NDCs.

### Mix of Product to be Offered

With regard to the mix of product on offer, ESB Electric Ireland observes that the Mid-Merit 2 plant appears to be the least favoured product and there is scope to reduce the volume of PSO-backed NDCs that are offered in this format.

The table below summaries the results to date of the 2010-'11 PSO related CfD auctions.

| PSO '10-'11 Summary Results to Date |                                | Q4'10 | Q1'11 | Q2'11 | Q3'11 | Total |
|-------------------------------------|--------------------------------|-------|-------|-------|-------|-------|
| Baseload                            | Percentage of Offered Vol Sold | 100%  | 97%   | 100%  | 100%  | 99%   |
|                                     | Premium paid over Reserve      | 6.2%  | 4.1%  | 4.4%  | 2.6%  | 4.5%  |
| Mid-merit 1                         | Percentage of Offered Vol Sold | 98%   | 100%  | 100%  | 100%  | 100%  |
|                                     | Premium paid over Reserve      | 5.3%  | 4.2%  | 1.7%  | 0.6%  | 3.2%  |
| Mid-merit 2                         | Percentage of Offered Vol Sold | 95%   | 100%  | 90%   | 56%   | 85%   |
|                                     | Premium paid over Reserve      | 4.9%  | 2.0%  | 1.1%  | 0.0%  | 2.0%  |

The table shows that practically all of the Baseload and Mid-Merit 1 product has been taken up with premia of 4.5% and 3.2% respectively. The uptake of the Mid-Merit 2 product is significantly lower and correspondingly a lower premium being has been paid.

- ESB Electric Ireland therefore suggests that the volume of MM2 on offer be reduced and the volume of Baseload and Mid-Merit1 be increased.

### Other comment

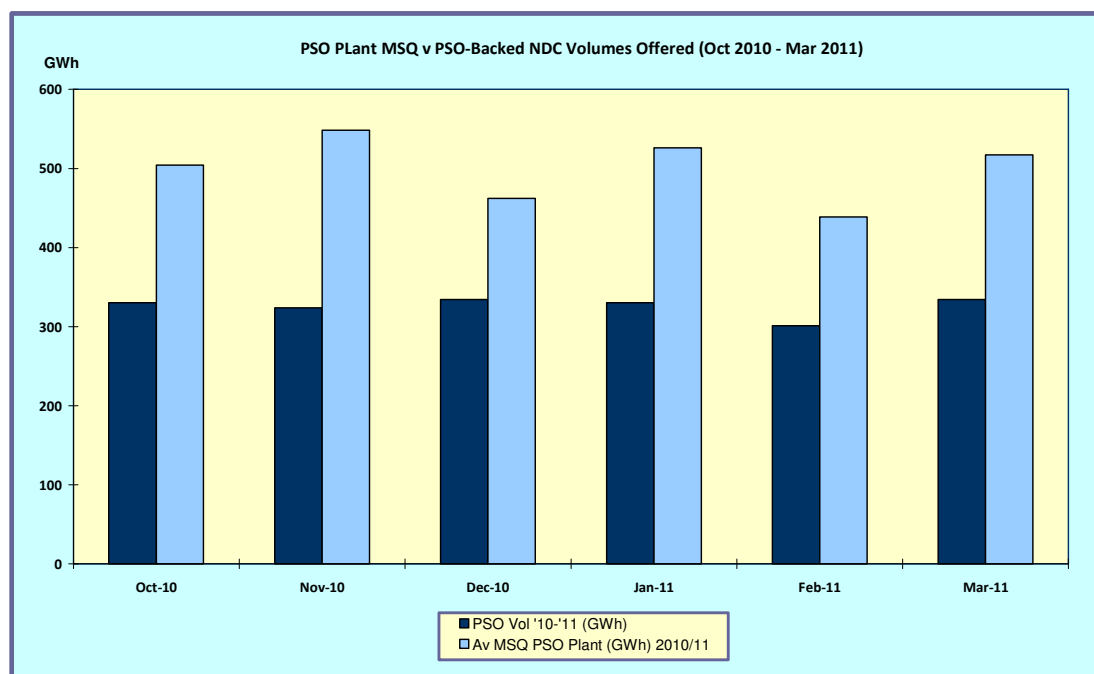
#### Total volume on offer

It is noted that in SEM-11-20 the intended volume of PSO related CfDs between 01/10/11 and 30/09/12 is 3.6 TWh. This represents a reduction of over 8% on the 3.9 TWh that will be offered for the current tariff year. This is an unwelcome development especially considering the significant reduction in PSO related NDCs that were made available in 2010/11 compared with previous years.

Furthermore, it is not clear on what basis this decision has been taken considering the volumes produced by PSO plant.

The graph below compares the PSO-related CfD volumes for October 2010 to March 2011 compared to the average MSQ values of the PSO related plant for the same period on a monthly basis.

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The graph shows that in most cases the PSO-related CfD volume amounts to approximately 65% of the average associated PSO plant MSQ values. This figure of 65% is consistent with the average for the entire period since the start of SEM. It is recognised that a "prudent view" of the PSO plants' output must be taken when considering what volumes to offer. However, comparing the volumes of PSO-backed NDCs offered and the out turn MSQ for the plant involved indicates that the current offering is sufficiently - if not overly - conservative.

**Yours sincerely,**

**Gerry McDonald**  
**Regulation, ET&R,**  
**ESB Electric Ireland**