



ESB Customer Supply Hedging Policy Statement

Issue date:

13th July, 2007

Contents

1. Background.....	3
2. Objectives	3
3. Financial Risks.....	4
4. Procurement Principles.....	4
5. Conclusion	5

1. Background

This document describes the policy objectives and procurement principles for ESB Customer Supply's (ESBCS) hedging activities in relation to electricity purchases from the Single Electricity Market. As requested by the Regulatory Authorities (RAs) and subject to further agreement, ESBCS will submit to the CER a Hedging Policy Statement each year.

ESBCS, as a ring-fenced stand-alone business within the ESB Group, will determine requirements for, and execute, its own hedging in keeping with:

- ESBCS's strategy and risk limits as approved by relevant Risk Management Committees;
- the requirements placed upon ESBCS through its Economic Purchase Obligation (EPO) and other obligations pursuant to its License Conditions; and
- the Minister of Finance's Specification and other provisions of the Financial Transactions of Certain Companies and other Bodies Act (1992).

The policy objectives for ESBCS's hedging activities are set out in the following section and an overview of the procurement principles and activities is set out in section 4.

2. Objectives

ESBCS's hedging policy objectives are to:

- seek to hedge ESBCS's pool price exposure prudently and economically in order to
 - obtain the best value for its customers;
 - manage the wholesale financial risks to the business arising from its retail customers who are supplied on fixed price terms¹;
- seek to manage the volatility of energy costs both *within* year and *across* years and to provide a measure of price stability to ESBCS's retail customers and minimise the potential scale of any year-end price adjustments;
- balance the proportion of long, medium and short term contracts within ESBCS's hedge portfolio and strike a balance between providing price stability to customers and reflecting prevailing market costs; and
- not discriminate between market participants.

¹ Customers who are supplied on "pool price pass through" terms don't contribute to wholesale market risks.

3. Financial Risks

ESBCS will hedge the demand profile of its retail customer base (excluding those on “pool price pass-through” pricing terms) as a whole rather than for each tariff profile separately.

In addition credit risk is important to ESBCS as emphasised by the recent modifications to the Minister’s Specification² regarding the credit terms under which ESB can trade SEM financial instruments. Consequently ESBCS will operate collateral arrangements with all counterparties.

4. Procurement Principles

ESBCS will adhere to the following principles in procuring its hedges:

- seek a prudent level of hedging subject to hedges being available and economic;
- secure hedges at the best value for customers to maintain price stability;
- conduct hedge procurement in line with the EPO;
- be open to offers from all available sources; and
- keep comprehensive records of hedging decisions to enable effective monitoring of compliance with approved strategies, policies and its EPO.

ESBCS will seek to put in place a prudent level of hedging via an appropriate mix of baseload, mid-merit and peaking to the extent that these are available and economic, to broadly match the profile of ESBCS’s forecast aggregate customer demand. This will include some hedges with differing monthly volumes should these be available at economic prices.

ESBCS will not discriminate between prospective counterparties. In order to procure the best risk management value for its customers, ESBCS will evaluate offers from market players on the basis of reasonableness of the selling price in the context of expected pool and market prices and the type & shape of hedge products offered in relation to our hedging requirements.

ESBCS intends to evaluate all hedge opportunities whether they arise from auctions, tenders, bilateral negotiations, “faxboards”, bulletin boards, or any other trading platforms that may emerge as to whether they represent good value for its customers.

² The specification of the Minister of Finance forming part of the Financial Transactions of Certain Companies and Other Bodies Act (1992)

Specifically, ESBCS will use all reasonable endeavours to put in place a prudent level of hedging at economic prices through active participation in the following procurement initiatives:-

- DC Subscription and (if available) Supplementary Windows ;
- generator auctions via a “Faxboard” or other mechanisms;
- PSO contract auctions via a “Faxboard” or other mechanisms; and
- bilateral negotiations with counterparties who are not affiliates (or affiliates with the prior approval of the CER).

ESBCS will use all reasonable endeavours to secure a prudent level of hedging despite uncertainties around the types and volumes of hedges that will actually be available in the emerging marketplace and the levels of “buyer” competition for these hedges. ESBCS’s possible level of hedging may be impacted in 2007 by market hedging processes being concentrated into a short time period.

ESBCS intends to refine its hedge contract portfolio on an ongoing basis through available market channels.

5. Conclusion

This document sets out ESBCS’s policy objectives and procurement principles in relation to hedging under SEM.

ESBCS will use all reasonable endeavours to put in place a prudent level of hedging at economic prices in order to provide best value and a measure of price stability to ESBCS’s retail customers and manage the wholesale financial risks to the business.

ESBCS will keep comprehensive records of hedging decisions to enable effective monitoring of compliance with approved strategies, policies and its EPO.