



**ESB Customer Supply Response to
AIP Consultation
Disclosure of Information to Final
Customers by Suppliers
(AIP/SEM/07/46)**

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1. Introduction

ESB Customer Supply (ESBCS) welcomes the opportunity to respond to the AIP Regulatory Authorities consultation paper on 'Disclosure of information to Final Customers by Suppliers' (Ref. AIP/SEM/07/46 dated the 13th March 2007).

2. Summary

The introduction of the new Single Electricity Market (SEM) in November 2007 requires the introduction of a new methodology for the calculation of each supplier's fuel mix purchased from generators and supplied onwards to customers. In the SEM it is essential that the methodology is applied in a harmonised, transparent and consistent manner across Northern Ireland (NI) and the Republic of Ireland (ROI).

Three options are proposed by the Regulatory Authorities: Average Pool Fuel Mix; Financial Contracts; and Certification of Fuel Types.

ESBCS's preferred option is Option 1 – Average Pool Fuel Mix and is recommended for the following reasons:

- accurately reflects the SEM design
- straightforward implementation
- minimal implementation costs and short time line for introduction

Option 2 – Financial Contracts, which is the preferred Regulatory Authorities option, is **not** recommended for the following reasons:

There are significant difficulties in providing much of the evidence required i.e.

- Evidence regarding financial contracts that supports the use of certain fuel mixes of energy purchases associated with those contracts.
- Evidence that the generator who is the counterparty to the contract has generated the relevant volumes.

ESBCS agrees with the Regulatory Authorities view that Option 3 – Certification of Fuel Types should not be considered as a methodology for consideration.

The Regulatory Authorities are proposing to adopt a similar methodology to the disclosure of environmental impact information as that currently used in the ROI and Great Britain and ESBCS supports this approach.

3. SEM Requirements

3.1 Disclosure of Fuel Mix

As outlined in the Consultation Paper on Disclosure of Information to Final customers by Suppliers (Ref. AIP/SEM/07/046 dated the 13th March 2007) the methodology currently in place in Ireland cannot be applied in the new pool market which becomes operational from November 2007. Therefore a new methodology is required that will apply in NI and the ROI and it is essential that the methodology is applied in a harmonised, transparent and consistent manner across NI and the ROI.

The Regulatory Authorities have outlined three high level options in determining the fuel mix for each supplier and are recommending that option 2 i.e. Financial

Contracts is the most appropriate. It is ESBCS's viewpoint that option 1 i.e. Average Pool Mix is more appropriate and should be the option to be implemented.

3.1.1 Option 1 – Average Pool Fuel Mix

In this option fuel mix will be calculated on the basis of generator output within the trading systems to which will be added energy traded outside of the pool as allowed in the Trading and Settlement Code (i.e. generators below 10MW). Provision of the latter information will involve a significant administrative overhead for ESBCS because of the large number of contracts in place. However this information is already gathered within the current arrangements in place for disclosure of fuel mix data. The benefits of introducing this option are as outlined in the consultation paper:

- accurately reflects the SEM design
- straightforward implementation
- minimal implementation costs and short time line for introduction

The consultation paper outlines two reasons against the introduction of this option:

- Does not facilitate suppliers in differentiating their offerings to customers on the basis of fuel types. It is stated that this is not consistent with the spirit of the directive. However the directive states as follows:

'With respect to electricity obtained via an electricity exchange...aggregate figures provided by the exchange...over the preceding year may be used'. This option is fully consistent with the directive wording.

- Conflicts with the operation of a ROC's scheme insofar as all suppliers will be deemed to have purchased the pool percentage of renewable energy.

There is no Renewable Obligation Certificate scheme in operation in the ROI. Most generators below the de minimus level of 10 MW produce renewable energy and where applicable this energy can be added to individual suppliers generator output.

3.1.2 Option 2 – Financial Contracts

Within this option it is proposed that financial contracts will be used as a proxy for proof of purchase of energy produced from defined fuel sources. A supplier's fuel mix will be calculated on the basis of financial contracts/hedges.

There will be an onus on suppliers to provide three elements of evidence:

1. Evidence regarding financial contracts that supports the use of certain fuel mixes of energy purchases associated with those contracts.
2. Evidence that the generator who is the counterparty to the contract has generated the relevant volumes.
3. Evidence regarding purchases outside the pool.

ESBCS is of the opinion that there are significant difficulties in providing the evidence required as outlined in the first two points above whereas, as already outlined under Option 1, provision of evidence regarding purchases outside the pool will involve a significant administrative overhead for ESBCS because of the large number of contracts in place.

Option 2, as stated in the consultation paper, does not reflect the physical flow of energy as accurately as Option 1.

Financial hedges may be made with a generator with a varied generation portfolio and it would not be possible for the supplier to know what plant is running at any given time. It will be difficult for suppliers to provide evidence unless the hedge is specifically made against a particular generator unit/plant which is unlikely to be the case in all situations.

At the SEM start-up financial contracts may initially be annual contracts but as the market matures it is likely that this will progress to monthly or perhaps daily contracts. This will increase the difficulty of providing the required fuel mix evidence.

Financial contracts made with generator counterparties do not necessitate the generation of particular volumes. If the fuel price goes higher than the pool and strike price the generator or holder of the hedge can sell the fuel option and not generate.

Financial contracts made with counterparties other than generators poses significant difficulties and as stated in the consultation paper 'merits further consideration'. Our view is that this consideration needs to be finalised urgently if the Regulatory Authorities discount Option 1 in favour of a decision to proceed with Option 2.

Under Option 2 it is stated that the residual average pool mix would be calculated and attributed to unhedged purchases from the pool by suppliers. How this may be done is not outlined in the paper but confirms that there is additional complexity associated with this option.

One reason given by the Regulatory Authorities for Option 2 is 'that it serves to facilitate suppliers who wish to differentiate their offerings to consumers on the basis of fuel types, in a manner that minimises costs and is consistent with the existing legal framework'. It is the view of ESBCS that Option 1 is a lower cost option and minimises costs to market participants and final customers i.e. one of the key items listed as requirements for the new methodology.

3.1.3 Option 3 – Certification of Fuel Types

ESBCS concurs with the Regulatory Authorities view that Option 3 which relies on the certification of generated output for all fuel types would require the establishment of a significant administrative process to issue, track, and redeem certificates and agrees that this is not an Option for consideration.

3.2 Disclosure of Environmental Impact Information

3.2.1 Recommended Approach

The Regulatory Authorities are proposing to adopt a similar methodology to the disclosure of environmental impact information as that currently used in Ireland and which is also based on the approach in Great Britain. ESBCS supports this approach.

4. Conclusion

In conclusion based on the arguments of accuracy, simplicity, minimum cost and the short time line for implementation ESBCS supports the implementation of Option 1 – Average Pool Fuel Mix in relation to fuel mix disclosure in the SEM.

ESBCS supports the Regulatory Authorities view regarding the introduction of a similar methodology in relation to the disclosure of environmental impact information in the SEM as currently exists in the ROI and Great Britain.