

Priti Dave-Stack
The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24

3rd April 2009

Your reference SEM-09-023

Dear Priti

Consultation on BNE Peaking Plant

ESB is pleased to submit its response to this consultation on the calculation methodology for the Best New Entrant Peaking plant.

There were a number of possible methodologies listed in the paper and after review we are strongly in favour of retaining the current methodology which is option 1. While this method is not perfect in that there may be volatility, we agree with the view in the paper that it is most economically efficient as it reflects actual market costs and technologies. If a significant unforeseen change in the market occurs which causes a radical step change in the BNE cost, then the effect on the CPM should be evaluated and modified, if necessary, at that time.

ESB PG is not in favour of keeping certain elements in the BNE calculation fixed over a number of years as this does not accurately reflect the market and still allows the possibilities of a step change although not every year. The inherent flaw in this method is that by keeping some elements static over a period of years, they can have diverged significantly from the actual year on year values which introduces a time lag in the market signals. This could be mitigated somewhat by indexing, but using indices which require RA discretion would not improve the predictability of the mechanism.

ESB PG is not in favour of applying a smoothing effect as in option 3 in the paper. The weighting mechanism only looks backward and not forward. This means that there will always be a lag compared to current market conditions and while this decreases volatility, it does not accurately reflect the market. It is our view that if smoothing is to be applied, a forward weight should be forecast and used as well as a historical weight. This will reduce the lag against the market but will increase complexity, possibly to an unviable level. This is because a review mechanism will be required to compare the forward forecast v the actual outcome and then resettle the capacity payment. A number of potential options for smoothing were outlined in the paper based on the assumption that the cost of procuring a gas turbine is cyclical over time, and that it is nearing a peak. We do not favour any of these for the reasons above and also that the assumption may not be valid.

Option 4 is an amalgam of the previous options and while it limits volatility, it diverges further from the true market costs. ESB PG is not in favour of this option for the reasons above. Option 5 is again an amalgam of previous options and we are not in favour of applying this for the previous reasons.

ESB PG is particularly not in favour of option 6 as this will create a two tier system between the existing generators and new generators. This option also is contrary to the CER criteria of fairness and non-discrimination between participants. It is also very difficult to see how this would work in practice.

In summary, we favour option 1 which is the existing methodology for calculating BNE and we look forward to the "phase 2" consultation in Q3 on the CPM.

If you have any queries or would like to discuss any of the matters raised further please do not hesitate to contact me

Yours Sincerely,

Brendan Barry
Manager Risk and Regulation,
Energy Trading and Regulation,
ESB Power Generation.