

Clive Bowers,
The Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

Jody O'Boyle
Utility Regulator
Queens House
14 Queen Street
Belfast
BT1 6ED

30th June 2010

Dear Clive/Jody,

**Fixed Cost of a Best New Entrant Peaking Plant
&
Capacity Requirement for the Calendar Year 2011**

ESBPG welcomes the opportunity to submit its response to this consultation and indeed welcomes the increased transparency provided in this year's consultation over previous years.

In summary, ESBPG is of the view that the proposed basis for establishing the annual capacity payment sum (ACPS) contained in this year's consultation is largely consistent with last year's decision and therefore largely suffers from similar shortcomings. The proposed reduction in the 2011 ACPS from €551.3m to €539.2m, which itself was a 14% reduction in the ACPS for 2009 is significant and confirms the high level of volatility and regulatory risk that pertains in the market and underlines the urgent requirement for the upcoming CPM medium term review.

Notwithstanding the above general point, ESBPG would like to highlight some specific areas of concern.

Chapter 9: Proposed Best New Entrant Peaker for 2010

It is proposed to use the NI Distillate option for the BNE. Given the queue of applicants in the Gate 3 process ESBPG believes that it is more likely that a BNE

would in fact locate in ROI. It is ESBPG's contention that it is appropriate to average the costs over the two locations rather than selecting one purely because it is the cheapest option. The Annual Capacity Sum calculation is not necessarily the correct place to deal with locational signals to the market.

Chapter 8: Economic & Financial Parameters

At a time when raising capital for investment projects is extremely difficult the RAs continue to persist with WACC calculation which assumes the investor is a subsidiary of an international utility and thus precludes the possibility of IPP entry into SEM which we believe should be encouraged. We note that the current queue of conventional applicants in the Gate 3 process in ROI contains many IPPs which are not part of an integrated utility.

Notwithstanding the above objection, which would significantly increase the cost of debt, it is ESBPG's contention that the required return on equity for 'a subsidiary of an international utility' for investing in Ireland would have to be significantly higher than that provided for in the proposal. Ireland, through the sovereign debt crisis, is facing fundamental solvency questions. Thus, if an international utility, whose home market is low risk, is to be convinced to invest in a high risk area then a significantly increased return on equity than the long term Equity Risk Premium [of their home market or indeed Ireland] would be required.

The above is relevant in the context of ESBPG's contention that the BNE peaker price should reflect the average of the BNE prices in ROI and NI.

ESBBPG continues to assert that the change in plant life from 15 to 20 years is incompatible with project financing structures, even if the actual technical life of the plant may be longer.

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

Yours sincerely,

John Lawlor,
Manager, Strategic Regulation.