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Stephen Powell
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Plaza House
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AIP/SEM/122/06: Consultation Paper on Risk Management in the All-Island Single Electricity Market

Dear Stephen

Thank you for providing us with the opportunity to respond on this consultation paper. This response is being submitted on behalf of both ESBI and Independent Generation and we have no objection to all or part of it being published by the Regulatory Authorities (RAs). We were not expecting this paper from the RAs since we understood from previous SEM discussions that you did not regard a power exchange or equivalent as an area for regulatory involvement, a view with which ESBI agreed.

Although the proposals have been made by the RAs for the purposes of facilitating market participants with risk management, transparency is the principal attraction for ESBI of directing the dominant generators to offer forward contracts to all suppliers. To fulfil the objective of full SEM transparency, participation in the exchange would have to be mandatory for both dominant incumbents. Neither could be permitted to engage in bilateral contracting with any other party except through the exchange, preventing the 'grandfathering' of NIE inter-company contracts in the SEM, as revealed at a recent Market Power Group meeting.

This consultation cannot be completed until there has been further progress with related work-streams such as market power (the NIE contractual arrangements need to be examined by the ring-fencing review team) and PSO harmonisation. We continue to hold the view that the regulators should not be involved in the establishment or operation of a forwards market, which would rule out Option 3 as described. Although we would have no objections to the generators contracting with a third party to operate an exchange if this did not entail excessive cost, there are no indications of what the cost of any alternative may be other than 'do nothing'.

While welcoming this discussion in the interests of transparency, ESBI's view is therefore that this consultation should remain open until more information is available on the shape of the market and on the likely costs of any risk management proposals.

Kind regards



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