



**ELECTRICITY SUPPLY BOARD
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Michael Campbell
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Queens House
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Consultation on PPB Price Control Initial proposals

Dear Mr. Campbell

ESB welcomes Utility Regulator's intention to investigate whether an incentive mechanism could be placed on the Power Procurement Business ("PPB") to encourage it to manage the costs that are eventually to be recovered through the Public Service Obligation ("PSO") levy. In this regard however, ESB is surprised that the Utility Regulator has reservations over whether sufficient information is available at present to allow the construction and robust operation of such an instrument. The Utility Regulator has in the past provided assurances that, while much of the underlying detail cannot be published as it is deemed to be commercially sensitive, all the information required to ensure the robust verification of the costs to be recovered through the PSO levy is available. If all relevant information is not available to the Utility Regulator at present, then steps should be taken to rectify this as a matter of urgency, in order to ensure the confidence of other market participants in the operation of the PSO.

Before any incentive mechanism can be contemplated, therefore, ESB believes that the Utility Regulator must ensure that:

- PPB operates its Power Purchase Agreements in a prudent manner that minimises costs and that this can be monitored and baselined by the Utility Regulator;
- PPB can demonstrate that all contract offers are made openly to all market participants on equal and non-discriminatory terms; and

- all costs/revenues arising from PPB contract sales can be thoroughly audited before being allowed to be recovered by the PSO levies.

In addition, it is assumed that bids/offers submitted to the Market Operator by PPB on behalf of the stations under contract must be consistent with the established Bidding Principles.

If the conditions above are not satisfied, then ESB agrees with the Utility Regulator that it is likely to be unable to ensure that any incentive mechanism would fair to both PPB and its stakeholders, and not simply deliver a windfall profit PPB and little benefit in terms of reduced PSO cost. Failure to satisfy the above conditions would also give rise to concerns over the extent to which ESB and market participants can be confident that the combination of the relevant contracts and the PSO are being operated and monitored in a way that eliminates any potential market distortion.

In addition, ESB notes the Utility Regulator's view that PPB should not be rewarded for creating liquidity in the contract market. ESB believes that while a formal incentive to increase liquidity in the financial market might be unnecessary, it will be important for large market participants to play a role in providing liquidity in order to create transparent price signals for smaller market participants. In this regard, ESB PG and PPB gave a commitment to exclusively market financial instruments in a transparent and non-discriminatory manner, and we see no reason why this should not continue.

Yours sincerely,

Fergal McNamara
Manager, Competition and Deregulation