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ESB Electric Ireland response to Directed Contracts Consultation Paper (SEM-11-007, 17th Feb 2011).

ESB Electric Ireland welcomes the opportunity to respond to the above paper and notes that the Regulatory Authorities (RAs) are seeking responses on a single issue relating to the process and timeline for offering Directed Contracts (DCs) for the 2011/12 tariff year. ESB Electric Ireland provides a response on this question below and offers further suggestions for the development of the scheme.

DC Option for Consultation

ESB Electric Ireland notes that the RAs have presented two options for the DC process this year. These are:

1. To continue with an annual process completed in advance of the start of the new tariff year as has been the case since the start of the SEM
2. To offer DCs in a staggered format with half of the DC volume being offered before the start of the tariff year with half being held back to be offered on a quarterly basis.

ESB Electric Ireland recognises that there is merit in staggering the offering of products through the year and was strongly supportive of the decision by the regulators last year to offer the PSO-backed NDCs in this way in 2010/11. However, there is a significant difference in scale between the volumes offered in the PSO-backed NDCs and the DCs (DCs accounted for approximately 10% of the total CfDs offered in the DC and NDC processes to-date for 2010/11 compared with 30% for the PSO-backed NDCs). In addition, the proposed new arrangement to stagger the DC subscription process will increase the level of complexity involved and will require extra resources and effort on behalf of the RAs and market participants to manage the DC process throughout the year. Given the relatively small volumes on offer, ESB Electric Ireland is of the view that there is insufficient added benefit provided by the proposed new arrangements to justify the extra complexity and expense.

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Furthermore, the proposed new arrangements would mean that the DC price formula would no longer be made available. This formula is an important tool used by all market participants as a forecast of SMP in the absence of a fully developed forward price. In particular, it is used by both ESBPG and NIEPPB for credit calculation purposes in the NDC Master Agreement.

Further suggestions

Monthly DCs

Electric Ireland believes that DCs should be offered at a monthly granularity – this would reflect changes in the NDC market and would allow suppliers more scope to be selective in the DC products they wish to subscribe to and thus to refine their procurement to meet their demand shape. This would require a monthly DC price to be developed which would be useful in helping to develop the market for this type of product in the SEM.

Timing of DC process

ESB Electric Ireland is of the opinion that the DC process should begin as soon as possible and sees little need to wait until the end of May to begin as has been suggested.

Carbon Index

ESB Electric Ireland has some concerns about the use of the BlueNext carbon price index. In particular, ESB Electric Ireland notes that published prices on BlueNext are consistently different from those on Leba. Notwithstanding the fact that BlueNext is a free service, Electric Ireland believes that further review of the site and comparison is required before accepting that it is fit for purpose.