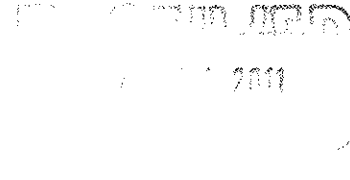


Transmission Asset Analysis



DRAFT CONCLUSIONS

This report has examined in detail the options available to Ireland under the Directive.

The key findings from our assessment can be summarised as follows.

- **Ownership Unbundling:** The cost benefit analysis of this option depends significantly on the structure of the transaction. Below we set out our findings in relation to the scenarios put forward by ESB and EirGrid respectively.

Transaction at fair market value: In this scenario ESB would receive fair market value for the transmission assets. Our central estimate is that this scenario is associated with net benefits with a NPV of between €1 million and €16 million to 2025. In addition, ownership unbundling could be associated with other benefits, including improvement in the capacity of the CER to apply incentive regulation to EirGrid, faster renewable connections, a stronger position as regards interconnection, and some scope as regards competition and customer service. However, our assessment suggests that EirGrid would, in this case, require a substantial equity investment, if it is to avoid breaching its borrowing covenants and maintain its projected capital programme.

Yes, BUT
WHERE is
MONETARY
Value!

Transaction at 50% of RAB: We have also considered a scenario in which ESB would receive a payment of 50% of RAB and EirGrid would take on debt of 50% of RAB. Our assessment suggests that this structure would worsen the financial position of both companies, and has the potential to significantly increase the cost of debt, due to a lowering of credit ratings. Our central estimate is that this structure is associated with a net cost in NPV terms of between €110 and €130 million to 2025. In addition EirGrid and possibly also ESB may have to reprofile their capital investment programmes, leading to a risk to the delivery of Ireland's renewable targets. While the additional benefits identified in the first scenario would also apply in this case, there is a risk that the wider regulatory benefits will not emerge, as these depend critically on EirGrid being a well capitalised entity. Finally it is likely that an additional payment could be required to the ESOP. As an alternative to a cash payment, the ESOP's shareholding in ESB could be increased.

ESOP is
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- **ISO:** We have considered arguments as to the appropriate interpretation of the ISO model. While it is ultimately a matter of interpretation, and will depend on the view of the Commission, it is likely that the shallower the

model the greater the degree of legal risk in relation to compliance. We carried out a cost benefit analysis of the ISO model in which all functions bar financing are carried out by EirGrid. Our assessment suggests that this model, if applied in Ireland, would be associated with net costs of between €8 million and €20 million. It is also likely to result in a significant worsening of the CER's ability to incentivise capital investment.

- ⊗ **ITO:** We carried out a relatively brief assessment of the ITO, as the option is not favoured by any party, and is largely considered to be retrograde in the context of the Irish electricity market. We concur with that assessment.
- ⊗ **Article 9(9):** It appears clear that Ireland is one of a small number of jurisdictions that could apply for an Article 9(9) exemption. Ultimately, Ireland can only make an Article 9(9) derogation if (i) the CER certifies the TSO under Article 10 of the Electricity Directive; and, thereafter, (ii) the European Commission makes a decision in favour of certification under Article 3(6) of the Access Regulation. At present, it is not possible to determine what the decisions of these bodies are likely to be. For this reason, there is an element of risk to pursuing this option. However, we suggest that if both the CER and European Commission take a purposive approach to assessment, Ireland is likely to be able to pursue a relatively strong case.

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