

Mr Fergus Cahill
Chairman
Electricity Transmission Assets Analysis
Attn: Ms Carmel Fields
Department of Communications, Energy and Natural Resources
29-31 Adelaide Road
Dublin 2

23 April 2010

Re: Electricity Transmission Assets Analysis

Dear Chairman

As requested, we wish to make a submission to you comprising this letter and a detailed Report in respect of the review of the future of the ESB Transmission Assets. We are furnishing this Report on the basis that we will be given a copy of the draft conclusions of the consultant prior to those being finalised. The Report addresses the complex set of regulatory, commercial and technical issues likely to be raised by your review process. The Report is entirely independent and objective and is produced by one of Europe's leading economic experts whose experience and track record speak for themselves.

ESB ESOP Trustee Limited is trustee of ESB ESOT which holds 5% of the issued capital stock of Electricity Supply Board on behalf of over 10,000 present and former employees of ESB and its participating subsidiary companies. As such, we are a significant stakeholder with firmly held views on the logical development of the industry in the best interests of the country.

The Report assesses the transfer of transmission ownership option against the goals of the EU's Third Energy Package, which are:

- Appropriate levels of investment in transmission, including connection of large amounts of renewable generation capacity
- Avoiding discrimination and ensuring a level playing field for all market players
- Fostering regional integration
- Avoiding excessive and unnecessary costs

and concludes that each of these is better served by retaining the present ownership arrangements than by a change in ownership. It confirms that the deep ISO

arrangements recently and successfully established by the Irish Government are very much in line with the requirements of the EU's Third Energy Directive.

The Report concludes that current EU policy does not require any change to be made to the present ownership arrangements of the transmission assets.

Having carefully considered the findings in the Report, it is clear to us that a transfer of ownership would:

- Cause distortions in the SEM given two different ownership and management structures for the transmission systems North and South
- Require to be undone within a few years in order to implement the regional British/French/Irish market that is a part of EU policy
- Result in significant one-off implementation costs
- Take a considerable time and cause very significant disruption of the Department, ESB and the Irish electricity market
- Result in significant short, medium and long-term increases in operating and maintenance costs due to duplication of personnel, processes, systems and security and the higher funding cost that EirGrid will have because it has smaller resources than ESB
- Distract the Department and ESB from implementation of much more urgent objectives, not least the Green agenda (see our comment below on this point in particular)
- Not deliver any measurable advantages to the structure or development of the Irish market
- Reduce the balance sheet of ESB resulting in increased cost of funds for its generation and distribution activities and impairing its development and ability to pursue the Green agenda (and see comments of the Minister below)
- Require a protracted negotiation with stakeholders, not least this trustee, which will require adequate compensation for the long-term diminution in shareholder value quite apart from issues of the underlying re-imburement of ESB for any assets transferred.

The Report examines current stated Government policy in the Energy White Paper of March 2007 and highlights the following policy objectives:

- Establish EirGrid as the National Transmission Grid Company by the end of 2008 and transfer to it the ownership of transmission assets
- Progress the scope for an all-island single Transmission System Operator, following the establishment of the SEM
- Ensure the progressive reduction of the ESB's market share in power generation to around 40% in an all-island market context by 2010
- Introduce SEM in 2007 and completion of North-South interconnector by 2011
- Achieve 35% of electricity consumption from renewables by 2020 and 15% by 2010.

Apart from change in ownership of the transmission assets, all of the above have either been achieved or are on-target without any hindrance caused by the present

ownership of the transmission assets. We do not see any argument to support the proposition that transfer of transmission assets is required to achieve any of the other stated policy objectives.

You should note that EirGrid itself in its Grid25 Plan does not suggest that a change in ownership of the transmission assets is required for delivery of its proposals.

Regarding the Green agenda, we note the pivotal role which the Minister recently ascribed to ESB, "*one of the best grid companies in the world*", on national television in connection with critical projects such as the development of a national smart electricity grid. Breaking up ESB and splitting critical intellectual capital within it into segregated entities will inevitably cause significant damage to its ability to fulfill this role, which would, as it stands, require ESB to exert its existing capabilities to their highest level, and to compete on a world (not just European) stage. It is important to note that the relevant skills and capability are not contained solely within the assets and personnel proposed for transfer to EirGrid.

We hope that you, the consultants and the Minister will take all of the points made in the Report on board, as your doing so will give us some confidence in the process. We must however reiterate that based on our experience with it to date we have serious reservations about the objectivity, efficacy and purpose of your process. These reservations have been communicated to you and to the Minister for Communications, Energy and Natural Resources in correspondence since the announcement of the process. While we have received partial replies to our correspondence, most of our concerns have neither been acknowledged nor addressed, although the name of the process was changed from one that pre-determined the outcome of the process and minor changes were made to the Request for Tenders document. For example, the final version of the Request for Tenders relegated the option to maintain the status quo to a minor position for the consultants as compared to their consideration of other options.

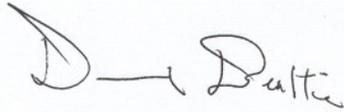
We believe that these changes were largely cosmetic and did not address our substantive concerns regarding the substance and direction of the process and the pre-ordained nature of its outcome. Because the substance of our concerns has been either ignored by the Minister or not addressed, we reserve our position in full. We believe that your review process as constituted and conducted so far is fundamentally flawed.

However, we continue to believe that, if the points we have made to date and that we make in this letter and analysed in the attached submission are considered objectively, and based on EU and international experience in recent years it will cause the Minister to clarify that his existing policy position, which we believe he has already shown signs of having developed further in his own thinking, can be fully realised under the recently established deep ISO model.

For all of the above reasons we believe that it is not in the interests of consumers, nor of Ireland as a whole, nor of the very important other issues including sustainability, carbon reduction and security of supply, to divert scarce resources or to burden consumers with the cost, distractions and delay of pursuing a change in ownership of the transmission assets.

We welcome an opportunity to discuss this matter with you and the consultants, the Minister and any other relevant authority.

Yours faithfully

A handwritten signature in black ink, appearing to read "D Beattie". The signature is written in a cursive style with a large initial "D" and a horizontal line extending from it.

David Beattie
Chairman