



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

# Monthly Newsletter

Volume 1 Issue 1

## Address from the Commission



Welcome to the first edition of a new Monthly Newsletter from the Commission for Energy Regulation. The Commission is going through a period of significant change and as part of this, we aim to provide an improved information service to the Industry. The Monthly Newsletter will provide a concise and condensed version of the Commission's business and activities each month. We hope that it will develop to become an important reference point for

industry professionals, Regulators, representative bodies and students alike. We would welcome comments on how the newsletter can improve and adapt. This month we provide further details on the organisational and structural changes within the Commission, as well as an update on electricity, gas, renewable and environmental policy within the Commission.



## Inside this issue:

|                                |   |
|--------------------------------|---|
| Commissioner Tutty             | 2 |
| All Island project             | 2 |
| VIPP Auction 2005              | 3 |
| Criteria for Regulatory Bodies | 3 |
| Gas Capacity Statement 2005    | 3 |
| Entry-Exit Capacity Regime     | 3 |
| Renewable Energy Forum         | 4 |
| Emissions Trading              | 4 |

## Structural Changes at the Commission

In one of his first announcements since taking over at the Department of Communications, Marine and Natural Resources, Minister Noel Dempsey informed the industry of changes to take place in the structure of the Commission for Energy Regulation. Commissioner Tom Reeves, who has been the sole member of the Commission since its establishment in 1999, will be joined on the new three member Commission by Mr. Michael Tutty. On page 2, Michael Tutty will outline his priorities as he joins the Commission. Mr Reeves has been appointed as Chairperson to the Commission while a third Commissioner will be appointed in the coming months.

To prepare for these changes, the Commission has also completed a restructuring of its divisions designed to deal with the Commission's remit and obligations towards achieving an All-Island Market. CER's new Organisational chart can be viewed at [www.cer.ie](http://www.cer.ie).



Minister Noel Dempsey

## Commission Announces Electricity and Gas Tariffs 2005

The Commission has announced a number of tariff increases for both electricity supplied by ESB PES (Public Electricity Supplier) and gas supplied by Bord Gais Energy Supply. On 3 September 2004, the Commission decided to allow an increase of on average 9% in ESB charges, to apply from October 2004. This increase is due exclusively to the escalation in fossil fuel prices throughout 2004. Record oil prices have been well documented, but gas prices have also increased by 49% and coal prices by 77%.

On 6 October 2004, the Commission published its direction to ESB PES on electricity charges to apply from January 2005. The Direction allows for a further average increase of 3.5% in the cost of electricity. This price increase is based primarily on non-fuel price issues. It can be accounted for by Transmission, Distribution and Public Electricity Supply costs, Public Service Obligations, Demand Side Management and Emission Trading.

The Direction to Bord Gais Energy Supply on Natural Gas Supply tariffs to final customers for the gas year October 2004 to September 2004, was announced on 30 September 2004. Domestic tariffs increased by an average of 11% while a 16% increase in Industrial and Commercial tariffs was allowed. Further details on these tariff increases can be found on the Commission website at [www.cer.ie](http://www.cer.ie)

## NEW COMMISSIONER'S PRIORITIES

## ALL ISLAND MARKET

Michael Tutty was appointed to his new position as a member of the Commission for Energy Regulation on 14 October 2004. In this article Michael outlines his vision for the industry and expresses his eagerness to work constructively with all electricity and gas market participants in Ireland, for the mutual benefit of all.



Michael says that the industry is offering new and exciting challenges for him. "Even in my few weeks in the Commission, I have already found that the sector is more complex than it seemed from outside and there certainly is no magic wand that will introduce fully competitive and liberalised electricity and gas markets starting from where we are. Good progress has been made but undoubtedly more has to be done, with the All-Island dimension now a particular focus. I look forward to participating in this challenging work."

Michael comes from an experienced and distinguished career background. He is a former-Second Secretary General at the Department of Finance in charge of Budget and Economic Division. Michael spent the last few years in Luxembourg, "In October 2000, I was appointed as Vice President of the European Investment Bank, where I had lead responsibility for lending, inter alia, in Ireland, Denmark and the African, Caribbean and Pacific (ACP) countries.

Michael's educational background is in business and economics, with masters degrees in economics and in strategic

management.

Michael G Tutty  
Commissioner

*Michael G Tutty*



### Memorandum of Understanding paves way for Progress on All island Market

In August 2004, the Commission for Energy Regulation (CER) and the Northern Ireland Authority for Energy Regulation (NIAER) signed a Memorandum of Understanding (MOU). The MOU provides a set of agreed principles which will underpin the development of an all island electricity market. The CER and NIAER have formed a joint project team to develop the Single Electricity Market (SEM). The joint project team is currently developing a work plan and allocating resources to the programme. This includes the joint hiring of consultants to support the project. By early 2005 CER and NIAER will be in a position to deliver a comprehensive timetable for delivery of the wholesale electricity market and other workstreams necessary for the overall programme.



In September 2004 the CER and NIAER convened a series of bilateral meetings to give the opportunity for stakeholders in the All-Island Market to present their views on possible market designs to a joint CER and NIAER panel. This stakeholder group included market participants and customers. The joint project team is currently considering these responses.

*"An All-Island electricity market where market participants and customers will have equal rights respectively, north and south of the border." (Source: CER and NIAER Memorandum of Understanding,*

A project website has been established and will be live shortly. The address is [www.allislandproject.org](http://www.allislandproject.org) and further information can be obtained from [info@allislandproject.org](mailto:info@allislandproject.org).

## ELECTRICITY GENERATION

## GAS MARKET ISSUES



### Commission publishes details of VIPP Auction

On 15th October 2004 the CER published for consultation a Principles Discussion Paper on the terms of the fifth annual Virtual Independent Power Producer (VIPP5) auction.

Following comments received from interested parties, on 2nd November the CER published the final VIPP5 Principles Paper. This stated that ESB would make available, via auction, a total of 400 MW of non-green capacity to licensed electricity suppliers, from 1st January 2005 to 31st December 2005. This capacity is made available to suppliers wishing to sell to Low Voltage Maximum Demand (LVMD), General Purpose (GP) and domestic customers. It is priced with the aim of providing suppliers with a 10% discount on the generation and supply components of ESB LVMD customer tariffs.

The deadline for the submission of bids for the VIPP5 capacity is 12th November 2004. The outcome of this auction will be referred to in the next monthly newsletter.

For further information, please contact Andrew Ebrill at [aebrill@cer.ie](mailto:aebrill@cer.ie), or Garrett Fitzgerald at [gfitzgerald@cer.ie](mailto:gfitzgerald@cer.ie).

### Gas Capacity Statement 2005

The Commission will publish its second annual Gas Capacity Statement on 12 November 2004. The Statement provides a forecast of capacity, flows and customer demand on the natural gas system over the coming seven year period, and constitutes the Commission's best estimate of the adequacy of Irish transmission capacity over a range of possible futures.

This year's statement will show the system to be sufficiently robust to cope with a range of demand scenarios. However, significant demand growth, coupled with delays to, or difficulties with, indigenous gas sources may bring about the need to reinforce gas infrastructure in onshore Scotland before the expiry of the statement period. In light of this uncertainty, the Statement recommends that a more detailed assessment of the most cost efficient and timely form of network reinforcement be undertaken.

The Gas Capacity Statement 2004 may be downloaded from [www.cer.ie](http://www.cer.ie). To request a hard copy of the report, please contact Claire Madden at [cmadden@cer.ie](mailto:cmadden@cer.ie).

### Unified Code of Operations – Implementation of Entry-Exit Capacity Regime

In February 2004, the Commission conducted a consultation on business rules governing the transportation of gas under the new entry-exit capacity regime. Comments received have now been incorporated into the proposed legal text. The second phase of legal drafting will be published on the 19th of November.



### Criteria for Regulatory Bodies Launched

September saw the launch of criteria for the regulation of electrical contractors by then Minister for Communications, Marine and Natural Resources, Mr. Dermot Ahern and the Chairperson of the CER, Mr. Tom Reeves.

It is estimated that there are 5,000 electrical contractors operating in the Ireland. The criteria provides for regulatory bodies who will register and oversee the work of these contractors. Prior to deriving this criteria, there was no industry standard for regulating electrical contractors. For further information, please contact Clare Beausang at [cbeausang@cer.ie](mailto:cbeausang@cer.ie)

A series of workshops will be held in December and January to discuss the legal drafting and the contractual framework for gas transportation from April 1st 2005. The Commission will publish details of these workshops, to be held on the following dates (all venues to be confirmed).

| Date                           | Location |
|--------------------------------|----------|
| 2 <sup>nd</sup> December 2004  | Cork     |
| 9 <sup>th</sup> December 2004  | Dublin   |
| 10 <sup>th</sup> December 2004 | Dublin   |
| 15 <sup>th</sup> December 2004 | Cork     |
| 16 <sup>th</sup> December 2004 | Cork     |
| 11 <sup>th</sup> January 2005  | Dublin   |
| 12 <sup>th</sup> January 2005  | Dublin   |

## ENVIRONMENTAL AND RENEWABLE ENERGY ISSUES



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### **INDUSTRY FORUM FOR GROUP PROCESSING APPROACH FOR RENEWABLE GENERATOR CONNECTION APPLICATIONS:**

The Commission was pleased with the attendance and the constructive dialogue at the forum held in CER offices on Monday 1 November 2004. The forum chaired by Mr. Denis Cagney, CER Director of Energy Networks, provided an ideal opportunity for the wind industry to try to solve the problems associated with connections to the National Grid and the backlog which has occurred over the period of the wind connection moratorium. The Commission stressed that the moratorium has now ended. Over 60 delegates attended and representatives of the TSO and the DSO were on hand to advise the forum. Most Industry representatives indicated a preference for a two tier approach to processing applications; this would prioritise applicants who are best placed to connect in the short term until such time as a group processing approach would come into effect. The Commission is open to this idea and agrees it may be the best way forward at this time. For further details, please contact David Naughton at [dnaughton@cer.ie](mailto:dnaughton@cer.ie)

## Emissions Trading: 2nd Public Consultation on National Allocation Plan

On the 7<sup>th</sup> July 2004 the European Commission approved Ireland's National Allocation Plan (NAP) for the pilot phase of the EU Emissions Trading Scheme (ETS) 2005-2007. The Environmental Protection Agency (EPA) held a 2nd Public Consultation on Ireland's NAP, 2005-2007 in October 2004. The Commission's submission focussed on the proposed treatment of new entrants under the NAP, with particular regard to the New Entrant Set-Aside (NES). The Commission highlighted that it is critical for system security and continued generation adequacy that the NAP does not present a barrier to entry in the electricity sector. This is significant in the context of the Generation Adequacy Report 2004-2010, which indicated a potential shortfall of 645MW by 2007.

(The Commission's submission is available on [www.epa.ie](http://www.epa.ie))

The Commission will be raising its concerns in its capacity as a member of National Allocation Advisory Group (NAAG).

### **Treatment of Emissions Trading Costs in the Power Generation Sector**

In March 2004, the CER advised the Government on the potential impacts of the EU Emissions Trading Scheme (ETS) on the electricity sector. In particular, the CER was concerned about potential windfall gains accruing to generators under the scheme resulting from the free allocation of CO<sub>2</sub> allowances under the NAP and the potential for significant increases in retail electricity prices if the full CO<sub>2</sub> cost was passed through (i.e. both from allowances allocated for free and those purchased by generators).

On the 1<sup>st</sup> July 2004, the CER published a Consultation Paper (CER/03245) to give effect to the Government decision to allow the CER to clawback potential windfall gains arising under the EU ETS. The CER will publish its Decision paper shortly on how it will deal with CO<sub>2</sub> costs during the pilot phase of the ETS (2005-2007). In the calculation of ESB PG Allowable Revenue for 2005 under the Bulk Power Arrangement a provisional estimate for ESB Powergen (PG) carbon abatement costs of €24.97 million (at a cost of €10 per tonne CO<sub>2</sub>) was included in ESB PG's allowable costs. The carbon cost represents approximately 3% of ESBPG's allowed revenue (CER/04/315). Since generation costs represent on average 40% of the retail price of electricity, the cost of carbon will mean an increase in the retail price of electricity by approximately 1% on average in 2005.

