



CER

Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

Commission Newsletter



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Downward Pressure on Energy Prices for 2007

2006 was a year of difficult pricing decisions for the Commission. The high gas and oil prices which were recorded through 2005 and up to Autumn 2006 had a knock-on impact on the cost base of ESB PES (Public Electricity Supplier) and Bord Gáis Energy Supply.

However the CER were pleased to be in a position to offer some good news to customers in early December, with the announcement of downward amendments to the published prices.



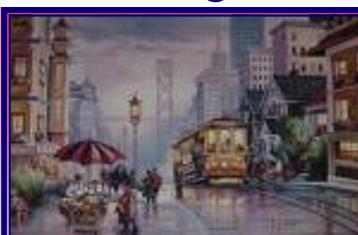
On Friday 1 December 2006, the CER announced significant adjustments to the previously approved prices for ESB and Bord Gáis for 2007. Electricity prices will now increase by on average 12.6% on 1 January 2007, rather than 19.7%. Gas prices will now decrease by 10% on 1 February 2007; they had previously increased by 33.8% on 1 October 2006.

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The CER's decision follows a detailed review of the costs which will be incurred by ESB and Bord Gáis in 2007, particularly in the light of recent reductions in the wholesale price of oil and gas.

Full details of the adjusted tariffs for 2007 can be viewed on the Commission's website, www.cer.ie.



**Happy Christmas
from the
Commission for
Energy
Regulation**

The CER and its staff wish all of our industry partners and readers of our newsletter a happy Christmas and successful New Year. *Nollaig Shona Daoibh.*

This year, the Commission has decided to donate money to charity instead of sending Christmas cards.

The following three charities have been chosen;

- Children in Hospital Ireland
- Ash Animal Rescue
- The Irish Heart Foundation



The CER is moving offices.....

From 22 December 2006, the CER can be contacted at the following address:

Commission for Energy Regulation
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

Our email addresses and contact numbers remain the same:

(Tel) 01—4000800
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GREEN PAPER



Department of Communications,
Marine and Natural Resources
An Roinn Cumarsáide,
Mara agus Achmhairní Nádurtha

TOWARDS A SUSTAINABLE ENERGY FUTURE FOR IRELAND

The CER has made its submission to the Department of Communications, Marine and Natural Resources on the Green Paper on Energy. This article summarises the main points which the CER made in its submission.

1) Structural Reform of ESB:

In its submission, the CER urges the Government to carry out a structural reform of the ESB Group. The CER had previously advised the Minister that alternative 4 of the scenarios outlined in the Deloitte Report on the electricity sector in Ireland was the best option for reform of ESB. This option involved the sale of two separate portfolios of ESB generation plant and the splitting of ESB PES into three separate entities, two of which would be sold off with one supply entity remaining within the ESB Group. This option also involved the removal of ESB Networks, the owners of the network assets from the ESB Group, but retaining this body within state ownership.



However it is clear from the Green Paper that this is not a likely option at this point. Against this background, the CER has developed a three point plan for structural reform of ESB;

- Establishment of an independent state owned networks company.
- Retention of ESB Power Generation and ESB Public Electricity Supply businesses as independent subsidiaries under an ESB holding company.
- Full implementation of the CER-ESB Asset Strategy Agreement to reduce ESB's market share in the generation market (see page 3). In conjunction with this, ESB PES would gradually have its share of the competitive sectors of the retail market reduced.

CER SUBMISSION ON ENERGY GREEN PAPER

2) Fuel Diversity:

The Commission has proposed that the Government develop a clear policy on fuel diversity in the generation mix in Ireland. At present Ireland is dependent upon imported fossil fuels. Natural gas, coal and oil account for 44%, 25% and 13% of electricity generation (2005). Furthermore natural gas is now the fuel of choice for power generation and its contribution is therefore likely to increase further. Given the volatility of international markets where fuels such as gas, oil and coal are traded, Ireland is particularly vulnerable to suffering the knock-on affects of high fossil fuel prices.

It is the CER's position that a policy framework would help to define the most appropriate balance between gas and other fuels in the generation mix.



3) Network Investment:

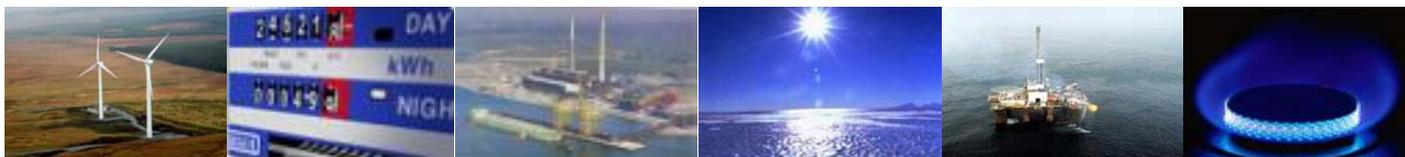
The CER has encouraged the Government to decide to fund major strategic network development projects through the use of exchequer (National Development Plan) monies. This would mean that the cost of such projects as the East-West Interconnector to Britain would not have to be paid for by electricity customers through the tariffs that they pay.

4) Regulatory Review:

The CER has welcomed the Government's suggestion that a review of the energy regulatory framework should take place after the commencement of the SEM in 2007. However it is important that the strong, independent regulatory structures that have been built up are maintained.

Full details of the CER submission can be viewed on the Commission's website, www.cer.ie





CER—ESB ASSET STRATEGY AGREEMENT

EXTENSION OF GAS NETWORK

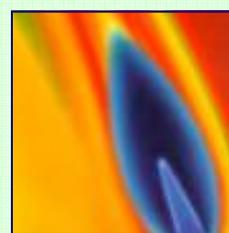
The CER has agreed a package of measures with the ESB to reduce the company's share of the power generation market in Ireland to around 40% by 2010. The details of this agreement were published on the CER website on 29 November 2006. The following are the key points:

- ESB will divest 200 MW and close 1,300 MW of existing power plant by 2010, representing almost 30% of ESB's present generation capacity.
- ESB will sell off a number of "generation ready" sites to independent generators for the construction and connection of new power plant. These sites include Shannonbridge (with a gas connection), Rhode, Tawnaghmore and Lanesboro and others which are yet to be decided upon.
- In return, the CER has agreed to authorise the construction by ESB of a new 400 MW (approx.) combined cycle gas turbine (CCGT) plant at Aghada, Co. Cork.
- The detailed implementation plan is to be agreed by CER and ESB by 30 June 2007.
- The CER has reserved the right to require ESB to sell the new plant at Aghada, if insufficient progress is made towards the implementation of the package of measures.



The CER is satisfied that these measures, in conjunction with the strategy to mitigate market power in the SEM will ensure that consumers can be confident that the prices in the market are reflective of the true costs of competing. ESB's market share will be reduced, and significantly this agreement will mean that ESB will no longer have control over most of the mid-merit and peaking plant in the market (the price setting plant). For further information, please contact Paul Brandon (pbrandon@cer.ie) at the Commission.

The CER's decision on the extension of the natural gas network to eleven towns along the route of the Galway—Mayo pipeline, was announced on 3 November 2006. This announcement was made under Phase 1 of a study into the viability of connecting new towns along this pipeline route. The eleven towns which will be connected are Athenry, Craughwell, Headford and Tuam in Co. Galway and Ballina, Ballyhaunis, Castlebar, Claremorris, Crossmolina, Knock and Westport in Co. Mayo.



Towns were considered for connection to the network, individually and in groups where relevant, in accordance with the criteria in the Connections Policy as approved and published by CER in April 2006. This evaluation was carried out on a cost-benefit basis purely from a gas perspective.

Towns were in essence evaluated based on the expected demand for gas, and the cost for connecting that town to the network over a 25 – year period.

Phase 2 of the New Towns Analysis under the Connections policy is continuing, with the viability of connecting other towns in other parts of Ireland to the gas network being reviewed.

Bord Gáis expect to have connected the first of the approved towns before the end of 2007, with the remainder being connected in 2008.

A full copy of the New Towns Analysis Phase 1 Report is available on www.bordgais.ie.





GATE 2 CONNECTIONS

Electricity produced from renewable sources, in particular wind, will increase its contribution to Ireland's power needs, **threefold** between now and 2010, following a decision published by the CER on 14 November. At present, there are just over 1,000 MW of renewable generation on the electricity system. This decision on "Gate 2 Renewable Generator Connections" will increase the level of renewables on the system to around 3,000 MW by 2010, if all projects are completed.



The CER has decided to approve the addition of over 1,300 MW of new renewable power to the electricity system, as part of the "Gate 2" round of connection offers.. This involves 121 new renewable projects throughout the country; the connection offers for these projects will be issuing from the system operators, EirGrid and ESB Networks in the coming months.

It is anticipated that the vast majority of the projects will be operational by 2010. This means that Ireland should comfortably achieve its EU renewables obligation of 13.2% of electricity consumption from renewable sources by 2010 and the Government's new target of 15%.

This decision indicates the CER's commitment to reducing Ireland's reliance on imported fossil fuels for our power needs.

For further information, please contact Andrew Ebrill at the Commission (aebrill@cer.ie).

POWER OF ONE CAMPAIGN

The Commission strongly supports the "Power of One"; the campaign for energy efficiency being run by the Department of Communications, Marine and Natural Resources (DCMNR) and EirGrid, the independent transmission system operator for Ireland.

Simple changes in electricity usage in the home and in the office, particularly between the peak hours of 5.00 to 7.00 in the evening can have an enormous effect on the efficiency of the electricity system. The Power of One initiative encourages people to become more aware of their own power when it comes to energy efficiency. Collectively, when each person makes a small change to their energy usage, it can make a big difference to the whole electricity system. This will help to save money and save the environment.



The campaign suggests a number of initiatives to improve energy efficiency. Some of these are:

- Reducing unnecessary energy use between 5.00 and 7.00 in the evening.
- Switching off appliances rather than leaving them on stand-by.
- Installing a lagging jacket on hot water cylinders and using a timer on immersion heaters to heat the correct amount of water.
- Purchase "A" rated energy efficient appliances when replacing kitchen appliances.
- Switching thermostats down by 1 degree can save significant levels of energy without any noticeable drop in temperature.

For detailed information on the Power of One and what you can do to play your part, please visit the Power of One website, www.powerofone.ie



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