Contents

Overview of the Changing Irish Electricity Market 2

Key Tasks 2001
Consumer and Corporate Affairs 6
Generation and Supply 13
Networks 15

Work Programme for 2002
Consumer and Corporate Affairs 18
Generation and Supply 20
Networks 22

Appendices
Appendix I: Documents Published by the CER 24
Appendix II: Energy Legislation 27
29 March 2002

Mary O'Rourke, T.D.
Minister for Public Enterprise
44 Kildare Street
Dublin 2

Re: Commission for Electricity Regulation Annual Report 2001

Dear Minister,

I am pleased to present to you the third annual report of the Commission for Electricity Regulation, in respect of the period from 1st January 2001 to 31st December 2001.

This report is presented in accordance with paragraph 25(c) of the Schedule to the Electricity Regulation Act, 1999.

Kind regards,

Yours sincerely,

Tom Reeves
Commissioner for Electricity Regulation
Background

The electricity industry in Ireland was traditionally structured as a monopoly, dominated by the Electricity Supply Board (ESB) and absent of competition. The European Union initiated the drive towards liberalisation of the electricity market, with the aim of creating a single European market in which electricity could be traded. On 19th December 1996, the European Council and European Parliament adopted Directive 96/92/EC, establishing a legal framework for commencement of the liberalisation process across all member states. This contained common rules for the generation, transmission, distribution and supply of electricity across EU countries. In Ireland the first stage of the EU Directive was implemented through the Electricity Regulation Act, 1999 (“the Act”), which came into force on 14th July 1999. This established the regulatory body, the Commission for Electricity Regulation (CER), and provided the framework for the introduction of competition in the generation and supply of electricity in Ireland.

Statutory Instrument (SI) No. 445 of 2000, signed on 20th December 2000, implemented the remainder of the requirements of the Directive 96/92/EC in Ireland. It allowed for the establishment of an independent transmission system operator (TSO), to be known as EirGrid. While transmission system ownership will remain with ESB, EirGrid will operate as an independent statutory company, licensed by the CER. It will have responsibility for operating, developing and ensuring the maintenance of the transmission system, as well as power station dispatch and the Trading System Settlement Administrator (SSA). The SI also provides for a Distribution System Operator, to be licensed by the CER, which will be operated, owned and ring-fenced within ESB. As a result of the SI, ESB will be required to keep separate accounts for its integrated electricity undertakings, including generation, transmission, distribution and supply activities.

Opening of Electricity Market

The electricity sector is being liberalised on a phased basis, with full market opening expected by 2005. In February 2000, the top 28% of the market was opened to competition, equivalent to about 400 customers. These customers are known as eligible customers as they are eligible to choose their power supply from any supplier licensed by the CER. The market should open further to 40% on 19th February 2002, allowing 1,600 customers to choose an independent supplier. In addition to the eligible market, since February 2000 there has been 100% opening of the “green” market. This means that a licensed supplier sourcing electricity from renewable, sustainable or alternative forms of energy may supply any customer in the country. Under the Electricity (Supply) (Amendment) Act, 2001, the combined heat and power (CHP) market
Irish Electricity Market

was fully opened in April 2001, enabling licensed CHP suppliers to sell electricity to any final customer. The CER is working towards 100% opening of the electricity market in 2005.

ESB has remained a vertically integrated company with separate business units for generation, transmission, distribution and supply. ESB may also compete in the eligible customer market using a subsidiary company, ring-fenced from ESB’s other business units. ESB Public Electricity Supplier (PES) supplies to customers who have not changed electricity supplier.

Role of CER

The CER believes that liberalisation of the electricity industry and the introduction of competition is essential in an advanced economy such as Ireland’s, making a substantial and long-term contribution to Ireland’s economic and social development.

The CER facilitates competition in the generation and supply of electricity by authorising the construction of new plant and licensing new companies to generate and supply electricity to customers. The CER has a regulatory role in relation to the operation, maintenance and licensing of the transmission and distribution networks, as well as approving tariffs for third party access to these systems. This will ensure that all independent generators and suppliers have fair and regulated access to the transmission and distribution systems. The CER also has the key responsibility for regulating prices charged to customers by ESB PES.

In carrying out its functions, the CER must ensure that it:

- Protects the interests of final customers
- Does not discriminate unfairly between players in the market

The CER must have regard for the need to:

- Promote competition in the generation and supply of electricity
- Secure that all reasonable demands for electricity by customers are satisfied
- Secure that licence holders in the market are financially capable of carrying out their licensed activities
- Promote safety and efficiency in electricity undertakings
- Promote continuity, security and quality in the supply of electricity
- Promote the use of renewable, sustainable or alternative forms of energy and take account of the protection of the environment

In addition, the Minister for Public Enterprise announced in 2001 that the CER will take over responsibility of the natural gas industry. In this regard the Gas (Interim) (Regulation) Bill, 2001, is currently making its way through the Oireachtas. The CER looks forward to taking on the additional duties as outlined in this legislation.
Growth in Electricity Demand

In carrying out its statutory functions, the CER is working in an environment where there has been a marked increase in the consumption of electricity, accompanying Ireland's economic growth. This growth is exemplified below:

Given this rapid growth in the consumption of electricity, the CER gives particular attention to the affects of its decisions and policy on security of electricity supply.

CER Organisation

In recognition of its statutory duties, the CER has set itself a mission to promote an electricity market which delivers choice, high quality and competitively priced electricity to the consumer on a safe, secure and sustainable basis.

The CER aims to create an organisational structure that supports the delivery of its mission, goals and objectives. As such the CER is organised into three divisions - Consumer and Corporate Affairs, Generation & Supply and Networks. The organisational structure is shown across.

To meet the CER’s work programme and particularly the functions conferred under the Act and SI 445 of 2000, the CER recruited additional staff across the various levels in its organisation. Additions included Senior Analysts, Analysts and administration staff, so that the numbers employed at the CER increased from 14 at the end of 2000 to 28 at the end of 2001. During 2002 the CER is expected to recruit further staff at various levels throughout the organisation.
Tom Reeves
Commissioner

Eugene Coughlan
Head of Consumer & Corporate Affairs
- Generator Licensing
- Supplier Licensing
- Environmental Issues
- Consumer Affairs
- Corporate Affairs
- Human Resources
- Finance and Administration

Denis Cagney
Head of Networks
- Use of Electricity Systems
- Use of System Tariffs
- Transmission System Licensing
- Distribution System Licensing
- Technical Codes
- Connection Arrangements

Cathy Mannion
Head of Generation and Supply
- Electricity Trading System
- ESB Generation Costs
- ESB PES Tariffs
- Virtual Independent Power Power Producer Market (VIPP)
- MRSO (Change of Supplier)
- Generation Adequacy

CER staff
Consumer and Corporate Affairs - 2001

The CER’s Consumer and Corporate Affairs team is primarily responsible for:

- Consumer Affairs and policy, so that customers are informed of the changing market and their interests are protected
- Corporate Affairs - Liaising with potential electricity market entrants, existing market participants and all other interested parties such as consumers, government departments, statutory bodies and the media
- Environmental affairs and policy, to ensure that CER policies have a positive impact on the renewable sector and the environment
- Authorising the construction of new generating plant and licensing generators and suppliers into the electricity market
- CER Human Resources
- CER finance and administration

Consumer Affairs

Under the Act the CER is required to protect the interests of final customers. The CER’s policies and work programme is designed and implemented with the aim of improving the quality, choice and price of electricity delivered to all final customers.

Workshops

In October 2001 the CER organised four nationwide Consumer Information Workshops. The aim of these Workshops was to provide information on the changing electricity market, to existing and future eligible customers, as well as other interested parties. The Workshops were held in anticipation of further opening of the electricity market in February 2002, from 28% to 40%, increasing the number of consumers eligible to change supplier from 400 to 1,600 approximately.

Approximately 600 business representatives attended the four Workshops in Dublin, Cork and Galway. Attendees were provided with information literature, which explained both the effect of electricity market changes on business customers and the CER’s role in this regard. At these Workshops the CER addressed a number of different issues affecting eligible electricity consumers.
These included:

- **An Overview of the Liberalisation Process**
  The CER explained why, how and at what pace the electricity market is liberalising, as well as providing an overview of its role in this changing market.

- **Choosing a Supplier**
  The CER advised consumers on methods of comparing offers from different suppliers, so that they could obtain the best deal.

- **Change of Supplier**
  The CER provided a step-by-step guide to the process involved in changing from one electricity supplier to another.

- **Standards of Electricity Supply**
  The CER assured customers that in the newly liberalised electricity market the quality/continuity of electricity supply will be the same irrespective of their electricity supplier. The operators of the transmission and distribution systems, EirGrid and ESB Distribution, are licensed and regulated by the CER. Both are obliged to be non-discriminatory to all customers in terms and the costs of services they provide. These services include connection/reconnection to the electricity system, quality of supply and continuity of supply.

- **Question and Answers**
  The CER answered questions from current eligible customers, future eligible customers and other interested parties. The Workshops were considered very successful in informing attendees of the new opportunities arising from a rapidly changing electricity market.

**Corporate Affairs**

**Bankability Study**

In recognition of the challenges faced by entrants to the Irish generation and supply markets, the CER commissioned NCB Corporate Finance in December 2001 to produce a “bankability” report. As part of this study NCB Corporate Finance undertook to identify issues faced by those considering investing in the Irish electricity generation and supply markets. This review focused on industry participants’ and lending institutions’ views on the current market structure and in particular how this impacts on their ability to obtain/lend finance for proposed projects.

**Liaison with Industry**

During 2001 the CER continued to meet with market participants and other interested participants. This included hosting a broad ranging Industry Forum with market participants, to discuss their concerns and general issues with the structure of the Irish electricity market.
Electrical Contractors
As requested by the Department of Public Enterprise, the CER is investigating the various options for the future regulation of the electrical contracting sector in Ireland. This task is on-going and has involved investigation by an independent consultant and consultation with those operating in the sector.

Environmental Affairs
CER and the Renewable Sector
In carrying out its primary duties and policy, the CER takes into account the protection of the environment and the promotion of renewable, sustainable and alternative forms of energy. This is reflected in key areas such as:

- Full Market Opening, for licensed “green” and CHP suppliers, so that they may supply to all customers in the country, irrespective of their consumption;
- Licensing procedures, whereby the CER takes into account the environmental impacts when authorising and licensing new generation plant;
- Electricity trading system, in that “green” and CHP generators and suppliers are afforded trading advantages, such as the ability to purchase unlimited “Top-Up” in any trading period, subject to annual balancing requirements.

During 2001 the CER continued to liaise with various participants and representatives within the renewable sector, including the Irish Wind Energy Association (IWEA), the Irish Energy Centre (IEC), the Environmental Protection Association (EPA) and the Department of Public Enterprise (DPE).

Wind Study
Given the increasing importance of wind generation in both the Republic of Ireland and Northern Ireland, the CER and the Office for the Regulation of Electricity and Gas in Northern Ireland (Ofreg) decided to embark on a study to investigate the feasible level of wind penetration which can be safely and securely accommodated on the island’s existing and future transmission systems. In November 2001 the CER and Ofreg invited consultants to submit proposals for an independent research study on this topic, which will also examine:

- What are the potential impacts of increased wind generation on system reliability and power quality?
- What are the economic costs and benefits of accommodating increased wind generation?
What are the potential impacts of increased wind generation in terms of both price and quality of supply on final customers?

Are there any other factors, which will potentially impact on the ability of the systems to handle increased amounts of wind generation?

Numerous proposals were submitted and the CER commenced the process of choosing the successful consultants, with a view to their commencing work early in 2002.

**Authorisations and Licences**

**Introduction**

Under the Act the CER is responsible for the authorisation and licensing of new players who wish to enter the electricity market. The assessment of Authorisation and Licence applications and the issue of Authorisations and Licences is one of the key functions of the CER in the new electricity market.

**Authorisations**

During the year 2001 the CER issued an Authorisation to Construct for 18 additional plants, with a combined capacity of almost 170MW. In view of its commitment to encourage renewable forms of electricity generation, the CER is particularly pleased to have authorised the construction of 11 additional wind farms during the year, with a total capacity of 88MW. The following pie charts show the total number and capacity of different plant types issued with an Authorisation to Construct at end 2001, such as wind, combined cycle gas turbine (CCGT) and combined heat and power (CHP).

**Generation Licences**

In 2001 a Licence to Generate Electricity was issued to 19 plants, with a capacity totalling over 530MW. This included the licensing of Synergen, a 408MW CCGT plant in Ringsend, Dublin 2. The following pie charts show the total number and capacity of plant types issued with a Licence to Generate Electricity as at end 2001.
Supply Licences

There are three separate classes of Licence to Supply Electricity:

- Licence to supply eligible customers;
- Licence to supply all final customers with electricity produced from "green" sources;
- Licence to supply all final customers with electricity produced from combined heat and power.

It was with regret that one of the suppliers licensed by the CER in 2000 to supply eligible customers and all customers with "green" electricity, ePower Limited, withdrew from trading in 2001.

During the year 9 applicants were issued with a Licence to Supply Electricity. The different types of Licence to Supply Electricity issued by the CER, at end 2001, are shown below.
Amendments to Authorisation and Licence Conditions

During 2001 the CER made a number of amendments to the generic Supply Licence.

- **Condition 19 - Contracts for Low Consumption Customers**
  
  Condition 19 of a Supply Licence requires that a licensee who supplies electricity to low usage final customers must draw up a special standard contract. This must be approved by the CER, so that special provisions are included to assist low usage customers should they incur financial difficulties in paying their electricity bills. During 2001 the CER changed the definition of low usage customers from those consuming 10,000 kWh/year or less to those classified as domestic customers. This is because the 10,000-kWh/year figure could include certain low consumption commercial customers, rather than purely domestic customers, which was not the original intention of the Condition.

- **Condition 20 - Balancing for Green and CHP Suppliers**
  
  The CER has a role to ensure that green suppliers balance, on an annual basis, the amount of electricity which they purchase from a green source with that which they sell to final customers. Condition 20 was amended in 2001 to ensure that the annual balancing requirement applies to both CHP and "green" suppliers, in accordance with criteria determined within the Trading and Settlement Code. Under the Condition a certificate showing adherence to the criteria must be submitted to the CER within 90 days of the anniversary of licence issue.

- **Schedule One - Customers a CHP Supplier may supply**

  During 2001 Schedule 1 of a Licence to Supply Electricity was modified to allow a “CHP supplier” to supply electricity to all final customers rather than merely the main heat customer, as enabled under the Electricity (Supply) (Amendment) Act, 2001.
Monitoring of Authorisations and Licences

The monitoring and enforcement of Authorisation and Licence conditions is one of the key tasks of the CER.

Authorisations

The CER monitors the construction of authorised plants to ensure that they are constructed in accordance with the information and timetable submitted in their application for an Authorisation to Construct.

In addition, the CER monitors the construction progress of plants which received scarce gas capacity from the Bord Gáis Eireann network under the Gas (Amendment) Act, 2000. These plants are namely the Huntstown Power Company Limited plant in Huntstown, Finglas, Dublin 11, the Synergen Plant in Ringsend, Dublin 2 and the proposed Dungarvan Energy Limited plant in Dungarvan, Co. Waterford. The CER monitors the construction of the plants to establish whether they are in accordance with the commissioning date stated in their application for scarce gas capacity rights.

Generation Licences

The CER assesses and approves the operator of licensed generating plants, as required under Condition 9 of the Generation Licence.

Condition 15 of a Generation Licence requires that a licensee reports annually to the CER on its environmental performance. On 23rd November 2001 the CER produced a Consultation Paper which proposed the method by which a licensee would report to the CER on its annual environmental performance. This proposed method is designed to ensure that the licensee complies with a reasonable environmental standard, taking into account the specifics of the licensed plant, while not placing too great an administrative burden on the licensee. Following this Consultation Paper, a Decision on the issue is to be published in 2002.

Supply Licences

The CER requires that licensed suppliers keep their customers informed of their electricity consumption and provide contact details of an enquiry service, should they require urgent attention. The licensee is also required to furnish customers with the CER’s contact details, so that the CER can assist in resolution of unresolved complaints between the supplier and customer.
**Generation and Supply - 2001**

The CER’s policies and work programme are designed and implemented with the aim of improving the quality, choice and price of electricity delivered to all final customers. Key tasks achieved by Generation and Supply for 2001 included the following:

**CHP Market Access**

Combined Heat and Power Generation (CHP) is one the most efficient forms of production of electricity in the Irish market (over 70%). It is therefore a very environmentally friendly form of production as it is less CO₂-intensive than conventional forms of electricity. The CER recognised the benefits of CHP production and wishes to encourage development of this market.

In May 2001 the Electricity (Supply) (Amendment) Act, 2001 was enacted. Section 9 of this Act opened the CHP market to all customers irrespective of the level of their annual consumption. This means that any electricity consumer may now purchase electricity from a licensed CHP supplier. Prior to this, CHP suppliers were only allowed one main heat customer and any excess production could only be contracted to an independent supplier or spilled to ESB.

Furthermore, in November 2001 the CER made a decision, which allowed CHP suppliers and generators to trade in the market and have their power tracked as CHP. This step opened the market further and encourages competition and the provision of CHP.

**VIPP2**

The CER wishes to continue to provide independent suppliers with a source of power to market in advance of the availability of power from independent generation sources. Therefore, in August 2001, following public consultation, the CER reached agreement with ESB on proposals for the second Virtual Independent Power Producers auction (VIPP2).

The CER listened and responded to Suppliers’ suggestions in designing this auction. This resulted in a very flexible product where capacity could be booked at a minimum charge and it could be ramped up and down to meet market needs. The final proposal provided 600MW, in 1 MW tranches, each for one year. The auction was oversubscribed. There were four successful bidders: Duke Energy International, Viridian Energy Supply Limited (Energia), ESB Independent Energy (ESBIE) and Bord Gáis Eireann.

A total of 301 out of approximately 400 eligible customers moved to independent suppliers by 31st December 2001 with a total MIC (KVA) of 1,058,425.

**PES Tariff Review**

In September 2001, the CER approved the first steps towards cost reflectivity and rebalancing of the ESB PES tariffs.

The CER approved tariff increases for ESB averaging 9%. This was the first tariff increase since 1997 and it was required to cover higher fuel costs and to fund necessary investments in transmission and
distribution networks, as the long-term sustainable development of the electricity sector requires that tariffs reflect the cost of supplying customers. The tariff adjustment is a first step towards rebalancing tariffs in line with the costs of supplying different categories of customers.

The CER considered full cost recovery and one step removal of cross subsidies would be unfair to certain categories of customers, particularly those who do not have a choice of electricity supplier. Therefore tariffs will be reviewed on an annual basis and will reflect more accurately the costs of providing electricity to certain categories of customers.

The cost reflective PES tariffs will ensure that there is a level playing field for new independent generators entering to the market, which will provide customers with a more sustainable and secure supply of competitively priced electricity.

**Capacity Margin**

The capacity margin payment scheme was implemented for generators with effect from 1st October 2001. It provides payment to generators for ensuring critical capacity is available so as to ensure security of supply.

The key elements of the scheme included a quality-lead approach, in which the Transmission System Operator (TSO) would define on an annual basis (or more frequently as required) the level of capacity margin that is required on a day ahead basis. The TSO would also enter into arrangements with generators to procure that required capacity margin. The hourly payment for capacity is €5.74 per MW.

**Firm/Non Firm Access**

The CER was mindful that new entry of generation plant was difficult due to the fact that other entrants were using up the scarce capacity on the network.

Following extensive consultation, the CER issued a Direction regarding Firm and Non Firm Access to the Transmission System. This addresses the transmission constraints in the system by allowing parties to export and to trade as much as the system can accommodate at any one trading period.

**Generation Capacity Review**


As a result of the review, 160MW of mobile generation was required for Winter 2001/2002. With the commissioning of the Synergen and Huntstown plants during 2002 these mobile generators will not be required in the future.
Networks - 2001

In view of the monopolistic nature of the network businesses, the CER plays an active role in regulating the electricity networks businesses in Ireland. The CER takes a stance to ensure that they operate in a manner that will encourage and promote competition in the Generation and Supply markets. Furthermore, the CER also aims to ensure that the operation, maintenance and development of the businesses will result in networks developed to the highest international standards.

Licences

In June 2001, the CER issued three network licences, namely the Distribution System Operator and Transmission System Owner Licences which were issued to ESB and the Transmission System Operator Licence which was issued to EirGrid. The licences detail the functions, duties and obligations placed on the licensees with respect to the electrical networks. The CER anticipates that the conditions in the licences should assist in promoting greater efficiency in the network businesses and services to customers. At present the Transmission System Owner and Transmission System Operator Licences are not yet in operation, due to a failure to implement the Infrastructure Agreement between ESB and EirGrid.

The Distribution System Operator and Transmission System Owner’s Licences require complete and effective separation of the licenced businesses from other businesses of ESB. This requires ring-fencing measures in relation to accounting practices, information technology and resources. However, the SI made a provision that, in the interest of economic efficiency, the CER could waive the requirement of complete separation of the distribution and transmission system owner businesses and approve an integrated network business. The CER received a convincing case from ESB and approved the case for an integrated network business. However the requirement for separate accounts of the two businesses was maintained and the requirement for the separation from the Supply businesses and other businesses of ESB has also remained.

Use of System Tariffs

Distribution

The CER conducted a comprehensive review of the allowed revenues for the Distribution System Operator with a view to implement a five year price control for the Use of System Tariffs. The CER expected that such a review would provide incentives to the Distribution System Operator to manage the allowed revenues in the most efficient manner so as to determine maximum benefits to the customer. In approving the charges, the CER took into account the necessary operation and capital expenditure that would be required to maintain a developed network and set out expected operating efficiency, capital investment and quality of supply targets. The CER is pleased to report it has approved a total of €1.5 billion in capital expenditure over five years in distribution infrastructure. This is a significant increase compared to the €977 million spent in the previous five years.

This capital expenditure will be utilised not only to install new network and equipment,
but also to reinforce and refurbish the existing distribution system. To name a few projects, such investment will assist: to increase the capacity of the system and transformers; refurbishment of the rural medium and low voltage network and cater for the increased demand and growth of the economy by way of new connections and investment.

The new tariff took effect from 1st October 2001 and effected a reduction of 9% on the previous tariff in real terms. The review anticipates a continuing moderate reduction in tariffs to 2005 in real terms.

The revenue review also provided incentives to the Distribution System Operator to improve the quality of supply. Targets have been set to reduce the customer minutes lost in excess of 40% during the period 2001 to 2005. The CER expects that due to the extensive capital investment allowed, the technical electrical losses should also reduce during the course of the five years. This should result in further cost reductions to customers.

Transmission

The CER also completed a comprehensive review of the revenues for the transmission business. Given historic under-investment in the networks and rapid economic growth there is currently a substantial infrastructure deficit in Ireland’s transmission system. The CER is pleased to report it has approved a capital programme of over €600m over 5 years to rectify this. This is a step change in investment from the €121m spent in the previous three years.

The CER approved a 5-year capital and maintenance programme, and expects ESB, as Transmission System Owner, to deliver significant efficiencies in this regard. The CER considers that it has protected both the customer and EirGrid, as Transmission System Operator, from uncertainty in the regulatory regime by setting operating revenues for the Transmission System Operator business for only 2 years which will be re-examined by the CER in 2002.

It is only through the undertaking of such investment that Ireland can have a transmission system capable of facilitating new generation entry, attracting inward investment and delivering high quality electricity supply to customers.

Interconnection

In conjunction with its Northern Ireland counterpart Oftreg, CER was pleased to oversee the auctioning of enhanced Interconnector capacity between Ireland and Northern Ireland. Auctions were held to allocate 120 MW of import capacity and 50MW of export capacity on the north-south Interconnector for the period 1st April 2001 to 31st March 2002. This represented an additional 20MW available for import and export from the previous year, which facilitated enhanced trading between independent sector participants in Ireland and Northern Ireland.

The end of 2001 marked a significant advancement in international trading opportunities for participants in the Irish electricity market. The commissioning of the Moyle Interconnector, a 500MW DC link between Northern Ireland and Scotland linked the island of Ireland to Great Britain for the first time. This will facilitate transits from Scotland to the Republic of Ireland.
Due to the investment in interconnection approved by the CER and more planned for 2002, the CER anticipates increased trading opportunities between Ireland, Northern Ireland and beyond via the Moyle Interconnector.

**Forecast Statement**

The CER oversaw the publication by the Transmission System Operator of the first Forecast Statement required by Section 38 of the Act. The Statement provides information on the performance of the transmission network and identifies opportunities for future connection to the network for a seven calendar year period looking forward. The CER considered that this information should serve as valuable information to both new entrants and existing parities in the market.

**Infrastructure Agreement**

The Infrastructure Agreement, as required by the SI, is an agreement between ESB, as holder of the Transmission System Owner licence, and EirGrid, as holder of the Transmission System Operator licence with the purpose of enabling EirGrid to discharge the functions of the system operator. The parties failed to reach agreement on the provisions of the Infrastructure Agreement prior to the effective date of 20th June 2001 as specified in the SI. In November the CER issued a Direction to the parties to reach agreement based on the CER’s industry requirements for the Infrastructure Agreement. The Direction details the functions and responsibilities of each party with respect to the transmission system. The Direction on the Infrastructure Agreement is now before the High Court arising from EirGrid’s refusal to comply with it. EirGrid has also sought and obtained leave to judicial review of the CER’s direction.

**International Practice**

The CER has represented Ireland at the EU and at international working groups in the interest of fostering good working relations with similar organisations abroad. This helps to ensure international best practice in the Irish regulatory environment. The work varies from attendance at European meetings on the electricity and the gas liberalisation process, proposals for new regulation regarding Cross Border Exchanges in electricity and OECD energy meetings. The CER actively participates and is a member of the Council of European Energy Regulators (CEER) working groups on Harmonisation of Tariffs, Congestion Management, Cross Border Trading, Taxation and the Environment, Benchmarking and Security of Supply.
Key Tasks 2002

Consumer and Corporate Affairs - 2002

Consumer Affairs

Workshops
During 2002, the CER intends to host additional Customer Information Workshops around the country. These will inform customers of the changing electricity market and how this impacts on them.

Quarterly Bulletin
In order to facilitate the dissemination of market information and CER decisions/policy to consumers, industry players and other interested parties, the CER intends to begin in 2002 the publication of a Quarterly Bulletin. The Bulletin will outline those developments and events that have happened in the preceding quarter that form or affect the developing electricity market. It will primarily be a web-based publication, but will also be available in hard copy format for those who request it.

Consumer Issues
In 2002 the CER will, in co-operation with market players, be examining the issues of consumer representation and avenues for complaint resolution, within the context of the further development of the market.

Corporate Affairs

Bankability Study
NCB Corporate Finance are due to report back to the CER on the results of the Bankability Study in the first quarter of 2002. This will identify the challenges faced by those investing in the Irish electricity generation and supply markets.

Liaison with Industry
The CER shall host another Industry Forum for market participants during the first half of 2002. The objective of this meeting will be to provide market participants with an opportunity to raise with the CER general issues which impact on the operation of the electricity market.

Electrical Contractors
Final proposals for the regulation of the electrical contracting industry will be submitted to the Department of Public Enterprise in 2002.
Environmental Affairs
During 2002 the CER will publish its environmental policy. This will examine the means by which the CER discharges its environmental duties and functions, covering areas such as licensing, trading, connection to and use of the electricity networks and various environmental initiatives. The CER will continue to liaise with various participants and representatives within the renewable sector.

Wind Study
The successful consultants for the CER/Ofreg wind study will be chosen in January 2002 and are expected to complete their report by Summer 2002. It is anticipated that the results of this study should inform on the future secure development of the valuable wind resource on the island. Integral to this study will be consultation with interested parties.

Certification of imported ‘Green’ energy
The commissioning of the Moyle Interconnector between Northern Ireland and Scotland has made it possible for licensed ‘green’ suppliers to import ‘green’ electricity produced in other jurisdictions. The CER will finalise the steps to be followed by licensed “green” suppliers in order that they satisfy the CER that the energy delivered to their final customers is considered ‘green’ under our Act. The CER will consult on its proposals prior to finalising arrangements.

Authorisations and Licences
The CER will continue to assess applications for Authorisations to Construct or Reconstruct Generating Stations, Licences to Generate and Licences to Supply Electricity, with a view to licensing new entrants into the market. The CER will examine all generic Authorisation and Licence conditions, with a view to ensuring that they continue to be relevant and practical in a rapidly changing electricity market.

Monitoring
The CER will continue to monitor licensees to ensure that they comply with Authorisation and Licence conditions. It will also continue to monitor the construction of power plants which received scarce gas capacity from the Bord Gáis Éireann network, as required under the Gas (Amendment) Act, 2000.

In 2002 the CER will publish a Decision Paper on Condition 15 of a Generation Licence, which will ensure that a procedure is in place to allow the licensee to report on its annual environmental performance in an effective and practical manner.
Generation and Supply - 2002

Metering

Ireland’s electricity market is expected to have full market opening in 2005. Consequently, in 2002 the CER will approve significant investment in the Meter Registration and Data Processing and Aggregation Systems (MDS).

The CER has supported ESB with specifying the requirements for the MDS systems to support full market opening. In 2001 the CER facilitated extensive consultations on the process and system specifications. The Market Review Group was established to review ESB’s proposals and input to design work. This will be an essential building block for a market where all customers have the freedom to choose their own supplier of electricity.

Pricing Review

A Direction issued by the Minister for Public Enterprise in 1999 set out the Government’s policy on how Ireland’s electricity trading system would work. This Direction formed the basis of the Trading and Settlement Code and also required that the CER review the effectiveness of the pricing arrangements, i.e. Top Up and Spill, in 2002.

If the CER finds that the pricing arrangements are inadequate when compared with their objective, the CER may amend these arrangements. The CER will publish a consultation paper in 2002 and will invite all interested parties to a public meeting prior to making any decision on the matter.

All Island Study

The CER will examine all measures that can be introduced to achieve the efficient operation of an all island market where compatibility between the two markets will be possible.

Subsequently, the CER will participate in a review of an all island market in conjunction with the Department of Public Enterprise, and with Department of Enterprise Trade and Investment (Northern Ireland) and Ofreg in 2002.

Electricity Prices

**VIPP Auction**

Further market opening will require the availability of additional power to supply those in the ‘eligible’ market. VIPP is the auction of ESB power to licensed independent suppliers in the eligible market in advance of the construction of independent generation. The format of a future VIPP is currently being finalised with ESB.

**Trading Arrangements**

The Commission has decided that the high level principles of the post February 2005 electricity market structure will be determined in 2002. This approach should allow the timely development of the many detailed elements that underpin the efficient operation of this market. It will also provide existing and potential market participants with some level of certainty that is required when considering whether to not to invest in the market.
Networks - 2002

Licence Codes

The CER included several conditions in the Distribution System Operator’s licence, to assist in its responsibilities under the Act, to promote continuity, quality of supply and to promote safety and efficiency on the part of electricity undertakings. These conditions require the DSO to draw up several codes of practice that will be adhered to by the DSO. The CER is optimistic that these requirements will further enhance quality and services to the network customer, facilitate further market opening and enable the CER to monitor the performance of the distribution business. The CER aims to approve a majority of codes presented by the DSO in the second quarter of 2002.

Business Separation

The Distribution System Operator and Transmission System Owner’s licence requires them to implement complete separation of ESB Networks from the other businesses of ESB within two years. This process has begun with the appointment of a separate Managing Director for ESB Networks and the submission of reports to the CER.

The CER has overseen the implementation of some short-term measures including restricting access of ESB staff to certain premises used by ESB Networks.

In 2002 the CER expects to approve the long-term proposals for separation. This should include issues relating to integrated premises, IT systems and internal accounting systems etc.

Use of System Tariffs

The CER will carry out a review for both the Transmission and Distribution Use of System tariffs for 2003 in the first half of 2002. When setting distribution tariffs for 2003, the CER shall apply the principles and revenue formula in CER’s revenue determination for the years 2001 to 2005. A more comprehensive review shall be carried out for the Transmission tariffs as the operating revenues were only set for two years.

Regulatory Accounts

The CER will prepare regulatory accounting guidelines (RAGs) for the integrated electricity undertakings of ESB. Regulatory accounts are designed to provide information about the regulated businesses, mainly for the CER. They will provide information that is more focused than that contained in statutory accounts as they relate to the regulated businesses or activities.

The provision of high quality regulatory information is important in ensuring the CER’s role can be carried out as efficiently and effectively as possible. The CER’s current work on regulatory accounts aims to:

- ensure that all regulatory accounts will be presented in such a way that they can be reconciled in a reasonably straightforward manner with the assumptions underlying the price controls to facilitate future price control reviews;
subject regulatory accounts to an audit process to ensure that the accounts are credible and are published on a timely basis.

The CER expects that the regulatory accounts shall provide much needed information, that is necessary to carry out future regulatory price reviews. It will also ensure that separation of business is carried out effectively and detect any possibility of cross-subsidies. This information should assist the CER to promote further efficiencies in the regulated businesses.

**Contestability**

Arising from the SI, a generator or demand customer wishing to connect to the transmission system has the right to contract for the connection assets required to connect them to the transmission system. The CER intends to issue a Direction to ESB National Grid on how parties can exercise this right following a public consultation on Contestability and Connection Assets in the first quarter of 2002. The CER expects that this should bring further cost efficiencies and competition in the market.
Appendix I: Documents Published by the CER

Documents Published by the CER from 1 January 2001 to 31 December 2001

January
- Eligible Customer List
- VIPP Mixing: A Decision by the Commission for Electricity Regulation
- Appendix 2 to VIPP Mixing Decision
- Rollover of Distribution and Transmission Charges
- Use of System Charges
- Limits on Access to Top-Up: A Proposed Decision by the Commission for Electricity Regulation
- Approved Grid Code
- Limits on Access to Top-Up: A Decision by the Commission for Electricity Regulation
- Transmission Loss Adjustment Factors for 2001
- General Conditions of the Grid Code
- Interconnector Capacity Auctions

February
- Consultation Paper: Treatment of CHP Plant under the Trading and Settlement Code
- Consultation Paper - Proposals for Compliance with Condition 20 of a Licence to Supply Electricity for the year 1999 - 2000
- Decision: Date of Commencement of Liability under Section 11.1 of the Trading and Settlement Code

March
- CER Decision on VIPP Mixing - Bilateral Inter-Trading under Regulation 3(4) of SI No. 49 of 2000 - Electricity Regulation Act, 1999 (Trading Arrangements in Electricity) Regulations, 2000
- Firm and Non-Firm Access to the Transmission System - Summary of Comments Received
- Trading and Settlement Code: A Decision by the Commission for Electricity Regulation

April
- Scope of the Market Audit in Ireland: Discussion Paper by ESB National Grid
- ESB Metering and Data Services Transform Project: MPRN Position Paper
- ESB Metering and Data Services Transform Project: Data Processing and Aggregation Position Paper
- ESB Metering and Data Services Transform Project: High Level Process Design for metering and data services

May
- Proposal to Amend Condition 19 of a Licence to Supply Electricity: A Consultation Paper
- Electricity (Supply)(Amendment) Act 2001
- Draft Principles for the Regulation of ESB Generation and ESB Supply Revenues - A CER Consultation
- ESB Public Electricity Supply (PES) Price Review Submission3
- ESB Power Generation Pricing Submission
- Distribution System Operator’s Licence

Limits to Access on Top-Up: A Decision by the Commission for Electricity Regulation
- VIPP Mixing Ad Hoc Solution - Bilateral Contract Inter-Trading
Firm and Non-Firm Access: A Draft Direction
Transmission System Owner’s licence
Transmission System Operator’s licence
Limits on Access to Top Up: A Decision by the Commission for Electricity Regulation

June
Transmission Infrastructure Agreement Principles Paper
The Treatment of Combined Heat and Power (CHP) under the Trading and Settlement Code - A Draft Decision by the Commission for Electricity Regulation
VIPP Invitation to Bid
VIPP Agreement
Proposal to modify Condition 19 of a Licence to Supply Electricity under the Electricity Regulation Act, 1999: Comments Received and Commission’s Response
Firm and Non-Firm Access to the Transmission System - A Direction by the Commission for Electricity Regulation
Position Regarding Location of Meter Registration System Operator (MRSO)
Distribution System Operator Licence issued to Electricity Supply Board
Transmission System Operator Licence issued to Electricity Supply Board
Transmission System Operator Licence issued to EirGrid
VIPP Auction Results

July
Meter and Data Services Project - Consultation Documents
Principles for Market Audit
Distribution Price Review Proposal
Commitment Bond Direction
Generation Testing Consultation
The Gas (Interim) (Regulation) Bill, 2001
Licence to Supply Electricity
Section 1 of Supply Licence

August
Firm and Non Firm Access to the Transmission System
VIPP Auction Decision Paper
Forecast Statement 2001-2008
Green Balancing Requirements
Transmission Use of System Price Review 2001-2005
VIPP Auction Information Session Presentations
Metering and Data Services - Market Review Group
Tender to Provide the Commission for Electricity Regulation with Publishing Services
Development of Load Profiles for the Irish Market
Metering and Data Services Workshop
VIPP Auction Information Session
VIPP Auction Consultation Paper
Commission’s Response to a request from the Minister for Public Enterprise

September
Transmission Use of System Price Review 2001-2005
Commission’s Price Review Proposal
TSO Revenue Submission
TAO Revenue Submission
Green Balancing Requirements
Forecast Statement-EirGrid Website
VIPP Auction Decision Paper
Firm and Non Firm Access to the Transmission System
Treatment of Generator Testing
VIPP2 Invitation to Bid
VIPP 2 Agreement
CER Proposal on Capacity Margin
ESB PES Price Review
- A Draft Decision By the Commission for Electricity Regulation
- Comments Received on Initial Consultation and ESB responses
Review of Pricing Arrangements under the Trading and Settlement Code
PG Price Review
Market Audit
Industry Forum
Nationwide Electricity Consumer Information Workshops
BNE 2001 Review
Synergen Decision
Briefing Session on VIPP2 Prices
Capacity Margin Paper
Security Cover Revised Provisions
Transmission Use of System Charges 2001-2005
- Cover letter to Eirgrid
- Cover letter to ESB
- Determination of Transmission Allowed Revenues
- Summary of Comments Received
Distribution Use of System Charges 2001-2005
- Cover letter to ESB Head of Networks
- Determination of Distribution Allowed Revenues
- Summary of Comments Received
- ESB Schedule of Distribution Use of System Charges
ESB PG Price Review Summary of Comments Received
ESB PES Price Review Summary of Comments Received
Direction to ESB for Tariffs
CER Announce Increase in ESB Tariffs

October
Integration of the Transmission and Distribution System Owner Businesses in ESB Networks
- ESB Submission on Integration
CER Draft Direction on Commission Industry Requirements for Infrastructure Agreement
Transmission Price Review-Amended Determination
Outcome of VIPP2 Launch Briefing
- CER VIPP Overview
- ESB PG VIPP2 Pricing Presentation
Launch of VIPP 2
- Overview of VIPP2 Auctions
- CER VIPP2 Press Release
- Non-Green VIPP2 Invitation to Bid document
- Non-Green VIPP2 Agreement
Transmission Use of System Charges Reminder for VIPP2 Suppliers
Response to Interconnector Paper
Secondary Price Workshop - Electricity Trading in Ireland
Results of VIPP 2 Auction

November
Date of Commencement of Liability under Section 11.1 of the Trading and settlement Code
Correction to Tariff Direction
Direction on Restricted Tariff
Standing Bilateral Contracts-Decision
Access to Information Under the Trading and Settlement Code-Consultation Paper
Integration of the Transmission and Distribution System Owner Businesses in ESB Networks
ESB NG Transmission Statement of Charges
Appendix II:
Energy Legislation


This EU Directive concerning the internal market in electricity came into force on the 19 February 1997 and was implemented in Ireland on 19 February 2000. The Directive required that approximately 28% of the Irish electricity market be opened up to competition at that time, increasing to about 32% by February 2003. This will allow independent electricity generators and/or suppliers to contract directly with designated eligible customers for the supply of electricity.

Electricity Regulation Act, 1999.

The Electricity Regulation Act, 1999 provides the regulatory framework for the introduction of competition in the generation and supply of electricity in Ireland. The Act provided for the establishment of the Commission for Electricity Regulation and gives it the necessary powers to license and regulate the generation, distribution, transmission and supply of electricity.

Policy Direction - Trading in Electricity.

One of the functions of the Commission for Electricity Regulation under Section 9(1)(a) of the Electricity Regulation Act, 1999, is to publish, pursuant to a policy direction or directions of the Minister, which shall be made publicly available when given to the Commission, proposals for a system of contracts and other arrangements, including appropriate rights and obligations, for trading in electricity.

This policy direction was received from the Department of Public Enterprise by the CER on 27 July 1999.

This Order brings into operation on 14 July, 1999, the provisions of the Electricity Regulation Act, 1999.


This Order appoints 14 July, 1999, to be the establishment day for the purposes of section 8 of the Electricity Regulation Act, 1999. On that day the Commission for Electricity Regulation was established to perform the functions conferred on it by the Electricity Regulation Act, 1999.


This order sets out the criteria in accordance with which an application for an authorisation to construct or reconstruct a generating station may be determined by the Commission for Electricity Regulation.


This regulation, made with the consent of the Minister for Public Enterprise, establishes a system of trading in electricity, having taken into account the matters raised in the public consultation process carried out under section 9(1)(b) of the Act.


This order imposes a levy on certain specified classes of electricity undertakings in 2002, for the purpose of meeting expenses properly incurred by the Commission for Electricity Regulation in the discharge of its functions under the Act.

S.I. No. 3 of 2002: Electricity Regulation Act, 1999 (Eligible Customer) Order 2002

This Order reduces the eligible customer threshold from 4GWh per annum to 1GWh per annum with effect from 19 February 2002.

All of the above are available on the CER website at www.cer.ie.