



Commission for Energy Regulation
An Coimisiún um Rialáil Fuinnimh

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ELECTRICITY TARIFFS

Every year, the CER reviews and approves transmission, distribution and ESB Public Electricity Supply (PES) tariffs. Typically the CER approves the tariffs in October of each year for application from the following January. Charges for use of the transmission and distribution networks apply to all electricity customers, whether they are supplied by licensed independent suppliers or by ESB PES. In addition, all customers pay a Public Service Obligation (PSO), the purpose of which is to contribute towards the cost of funding peat and renewable generation plants. Supply tariffs offered by ESB PES, on the other hand, apply only to customers not currently served by independent suppliers, such as domestic customers. On 16th July 2004 the CER published for public comment ESB's request for price increases for PES customers (see CER/04/249). ESB's request, to be assessed in detail by the CER prior to any decision, is for an 8% rise in tariffs in September of this year and a further 4.5% rise from January 2005, to reflect increases in their cost base.

A key component of the supply tariff offered by ESB PES is the generation cost, which accounts for over 50% of the end charge. Within this generation cost, fuel inputs such as oil and gas constitute 25% of a customer's end charge. With this in mind, the CER proposes to introduce a "pass-through" of fuel costs into the supply tariff for 2005. In effect this would allow changes in the price of fuel, both increases as well as decreases, to pass through to customers. A final decision on this is expected by October of this year.

For further information please contact Mr. Niall Lawlor at nlawlor@cer.ie, or Mr. Aidan Kearney at akearney@cer.ie.

Inside	P
Electricity Connection Issues	2
All-Island Energy Market	3
MAE Update	4
Gas Market Issues	6
Environmental Issues	8

GAS SUPPLY FRANCHISE



Over the past few months the CER has been engaged in a competitive process to determine the award of the sole franchise for the supply of natural gas to domestic customers in Galway (including Oranmore), Athlone, Ballinasloe, Tullamore (including Clara) and Mullingar. The franchise, awarded to the winner of the competition, is for the exclusive right to supply natural gas to domestic customers in these areas and is expected to endure until 1st July 2006. The CER received five expressions of interest from parties interested in bidding in this competition, which was based on service and price levels. The CER has now concluded its competition and has selected Flogas Natural Gas Limited as the winner. Thus domestic customers currently supplied with natural gas in the above areas will transfer from Bord Gáis Éireann to Flogas Natural Gas on 5th August 2004. Flogas Natural Gas may also compete for commercial/industrial customers in these areas, as they are entitled to choose from any licensed natural gas supplier.

Flogas Natural Gas can be contacted at (041) 9874 874.

For further details please contact Mr. Garrett Fitzgerald at gfitzgerald@cer.ie. Other issues relating to the Gas market can be found on pages 6 and 7.

Pictured right are CER and Flogas Natural Gas representatives at the signing of the Implementation Agreement regarding the gas supply franchise.



ELECTRICITY CONNECTION ISSUES



Wind Connection

On 22nd March 2004 the Transmission System Operator (TSO) ESB National Grid (ESBNG) wrote to the CER under the heading “Wind Generator Connection Offers”. This letter followed on from a series of earlier correspondence and public debate arising from a request by ESBNG on 1st December 2003 for agreement to a moratorium on issuing offers to wind generators for connection to the transmission and distribution systems. This request had been agreed to by the CER under Section 34 (4) of the Electricity Regulation Act, 1999.

ESBNG’s letter of 22nd March summarised progress to date on dealing with certain issues which, it had earlier been agreed, needed to be urgently addressed in order to facilitate the connection of wind generation. The letter also proposed that ESBNG, as a prudent system operator, should only resume processing connection applications for wind generation after four specified criteria were met. By implication, the moratorium would continue pending these criteria being fulfilled. The CER therefore treated the letter of 22nd March as a request for a CER agreement to a further extension of the moratorium under Section 34 (4) of the 1999 Act until the CER decides on the specified criteria.

On 11th May the CER issued a draft direction on Wind Generator Connection Policy for public consultation. The CER’s final direction was issued on 9th July (CER/04/245), under Section 34 (1) of the 1999 Act. The CER decided to end the wind moratorium and directed both ESBNG and ESB Networks to recommence the processing and issuing of connection offers. The decision will take effect when the CER approves the proposed conditions in the Distribution Code applicable to wind. The CER expects to receive the proposed conditions very shortly and anticipates approval within 3 weeks of their receipt.

Grid Code for Wind

In April 2004 ESBNG, in its capacity as the TSO, submitted the new Grid Code for Wind for the CER’s approval. The new Grid Code for Wind was formulated by the TSO in conjunction with the Wind Grid Code Consultation Group.

This Consultation Group comprised ESBNG, CER, the Irish Wind Energy Association (IWEA), Wind Turbine Generator manufacturers, Sustainable Energy Ireland (SEI), the Distribution System Operator (DSO), the System Operator Northern Ireland (SONI) and ESB Power Generation. It convened for the first time in October 2003. In light of the wind connection moratorium introduced by the CER in December 2003, the CER directed that the work of the Group be accelerated.

Upon approval, the Grid Code for Wind will be inserted as a new operating code into the existing Grid Code. ESBNG proposed that the conditions of the Wind Grid Code will also apply to distribution connected wind generators above a threshold of 5MW. The relevant provisions will, upon approval, be inserted into the Distribution Code.

The approved new Grid Code for Wind can be viewed on the CER’s website in Consultation Paper CER/04/237.

For further information on the above wind connection issues, please contact Mr. David Naughton at dnaughton@cer.ie.

Connection Process

The current application processes for generation connection to the electricity system are set out in the ESB Networks’ document “Guide to the Process for Connection to the Distribution System” and the ESB National Grid document “Connection Offer Process: Process for Connection to the Transmission System in Ireland” (see www.eirgrid.com).

In December 2003 the CER identified the alignment of the transmission and distribution connection offer processes as an issue requiring urgent attention. This was due to significant discrepancies between the transmission and distribution connection offer processes, which were highlighted by the recent unprecedented demand for network capacity. In March 2004 proposed amendments to the current generator connection offer processes were submitted by the Transmission and Distribution System Operators to the

ELECTRICITY CONNECTION ISSUES...CONT.

CER and published on the CER's website for public consultation. Following this, on 14th May 2004 the CER published a draft direction on the proposed amendments which apply to all generators connecting to the transmission or distribution systems - see document CER 04/200 on the CER's website. The CER will issue a final direction in the near future.

For further information on the connection process, please contact Mr. David Naughton at dnaughton@cer.ie.

East-West Interconnection



Following the CER's recommendation for an Ireland-to-Wales electricity interconnector, in February 2004 the Minister for Communications, Marine and Natural Resources Dermot Ahern TD announced Irish Government approval for such a development as a priority. The Government's first preference was for this investment to go ahead on a purely merchant basis, whereby private developer(s) take the full commercial risk and reward for developing and operating the project. Subsequently the CER held extensive consultations with industry - see consultation paper CER 04/133, published on the CER's website on 6th April.

In mid June the CER reported back to the Minister that while there was little evidence of private sector interest in purely merchant interconnection, there was significant interest among several industry players in developing interconnection on a regulated basis. This method would involve the interconnector being built on a public-private partnership model and would be designed to minimise risk and cost to the customer.

The Minister has recently announced that he is considering the CER's report with a view to moving forward as quickly as possible.

For further information on electricity interconnection, please contact Ms Cliona McNally at cmcnally@cer.ie, or Mr. John O'Connell at joconnell@cer.ie.

ALL ISLAND ENERGY MARKET

On 21st June 2004, the Department of Communications, Marine and Natural Resources, together with Northern Ireland's Department of Enterprise Trade and Investment, published a consultation paper on an All-Island Energy Market Development Framework. This follows discussions with the CER and the Northern Ireland Authority for Energy Regulation (NIAER) through a Joint Steering Group, set up to discuss issues related to the development of an all-island energy market.

The consultation document discusses what an all-island energy market constitutes from a policy context and sets out the strategic objectives and key priorities that could be achieved over the next three years. It has identified the following projects for action within the next three years:

- Decision on a second North-South electricity interconnector;
- Common revenue review periods for allowed revenues for networks businesses in electricity and gas;
- Harmonised transmission tariff methodologies in electricity and gas;
- Common procedures and licence requirements for gas and electricity participants in both jurisdictions;
- Harmonised supplier codes of practice and customer protection arrangements;
- Common/single Generation Adequacy Report;
- Common/single forecast statement;
- Similar change of supply processes for gas and electricity;
- Similar ring-fencing and unbundling requirements of supply/generation and networks businesses in electricity and gas.

The document can be viewed on the Department's website at www.dcmnr.gov.ie.

The CER will continue to work with NIAER and the Joint Steering Group to achieve an all-island energy market.

For further information please contact Ms Priti Dave-Stack at pdave-stack@cer.ie.

MAE UPDATE



The CER has decided to put the implementation of the MAE (Market Arrangements for Electricity/ Margadh Aibhléise na hÉireann) on hold for a number of months. This period will be used to accomplish the following, during which updates will be posted on the CER website:

(a) Consider changes to the MAE market design

The CER continues to believe that the MAE, as currently envisaged, is best practice in electricity market design. However the CER recognises participant concerns in relation to perceived market complexity. Participants have proposed a market that pays a common System Marginal Price (SMP) to generators as an alternative to a Locational Marginal Price (LMP), which takes a generator's location and system constraints into account. Generators have asserted that this will reduce risk and complexity. The CER has initiated a consultation process to consider the possibility of modifying the MAE market design to address participant concerns, while protecting the interests of final customers. The CER has published a questionnaire (CER/04/228) on the above and will use the feedback received to develop its consultation document.

(b) Implement a new market implementation and procurement process

The CER is considering alternative approaches to implementing the MAE, to introduce a process with an appropriate level of incentives related to the time and cost of market implementation and procurement.

Strategy for the Management of ESB Dominance under the MAE

The CER published a background paper (CER/04/053) along with ESB's proposal for the treatment of ESB dominance under the MAE (CER/04/054) in February of this year. Following a review of comments received, the CER published a further paper on 13th May - "Strategy for the Management of ESB Dominance under the MAE:

A Consultation Paper" (CER/04/189). This paper outlined the CER's proposed high level guiding principles for the regulatory strategy and suggested areas of work under that strategy. In addition to submitting responses to this paper, participants were afforded an opportunity to present their views on this matter at an industry forum hosted by the CER on 4th June. The CER is now in the process of examining submissions received in response to this paper. The CER will publish its strategy for the management of ESB dominance under the MAE and an associated high level work plan in the 3rd quarter 2004.

Settlement and Security Cover under the MAE

On 19th March the CER published a consultation paper on settlement and security cover under the MAE (CER/04/110). A number of issues were addressed in this paper including the settlement timetable, the settlement of reconciled data and the security cover policy under the MAE. The CER received a number of responses to this consultation and following review of same published a draft decision paper on 4th May (CER/04/159). In addition, the CER published a consultation paper on "netting off" or re-assignment of settlement obligations under the MAE. This issue had not been addressed in the initial consultation paper but had been noted by a number of respondents in their submissions. In the latter half of May the CER met with interested participants to discuss this issue and those dealt with in the consultation and draft decision papers. The CER's decision will be published in the 3rd quarter 2004.

MAE Rules Development

The work on the further development of Part 2 of the MAE Rules continued throughout the 2nd Quarter. This involved the presentation to the MAE Rules Expert Group by ESB National Grid's (ESBNG) consultants, Charles Rivers Associates (CRA), on various aspects of the Rules that require further development. In addition it involved the incorporation of decisions made by the CER in relation to certain aspects of the MAE post February 13th, when Version 0.5 of the Rules was completed by the CER and handed over to ESBNG.

Following the CER's decision to put the MAE implementation process on hold, ESBNG has released consultants CRA and the CER has resumed responsibility for development of the market rules. The CER will assess the work completed by CRA and

MAE UPDATE...CONT.

determine the areas which will not be affected by any modification(s) to the market design, i.e., outage planning, ancillary service contracts, etc. The rules expert group will continue to meet to develop the market rules in these areas during the 3rd quarter 2004.

Treatment of Small-scale, CHP and Renewable Generation under the MAE



On 10th October 2003 the CER issued a consultation paper on the treatment of small-scale, CHP (Combined Heat and Power) and renewable generators under the MAE - see CER/03/253. The CER then established a CHP/Renewables Expert Group, comprised of industry participants. This group met on a regular basis to discuss and debate the issues contained in the consultation paper and to help inform the CER on these issues. Following on from this, the CER issued its decision on the detailed design of the MAE in relation to CHP, renewable and small-scale generation in Ireland on 9th June 2004 (CER 04/214).

Interconnector Trading Arrangements under the MAE

The CER, in consultation with the Northern Ireland Authority for Energy Regulation (NIAER), published a decision on 19th April relating to the Republic of Ireland (ROI)/Northern Ireland (NI) interconnector trading arrangements that will apply on commencement of the MAE (CER 04/143). A background paper accompanying this decision paper was also published (CER 04/142). The agreed trading arrangements are based on the principle of explicit capacity rights on the ROI/NI interconnector with priority at day-1 and equitable and competitive within-day trading opportunities for participants to trade with the MAE and vice-versa. The sharing of reserves between NI and ROI will continue. This decision was the result of an extensive consultation process that began last October with the publication of the Interconnector Trading Principles Consultation Paper (CER/03/266). Two specialist interconnector groups were established to examine and debate this issue, containing industry participants from both ROI and

NI, the system operators SONI and ESBNG, and both regulatory authorities, the NIAER and the CER. These groups have met frequently over the past number of months and during the process the CER issued a number of discussion papers to both groups, in addition to a proposal developed by the system operators. The high level principles of this proposal provided the basis for the decision.

The Interconnector Expert Group now begins the process of translating these high level arrangements into detailed operational rules. This work will continue over the coming quarters.

Financial Transmission Rights (FTRs)

The CER established a FTRs Expert Group, comprised of representatives of active industry participants, ESBNG and the CER. This expert group met frequently in quarter 2 to discuss and debate issues pertaining to the design, administration and governance of FTRs. The CER issued its decision on the design, administration and governance issues in relation to FTRs on 4th May (CER 04/178). This decision sets out how the fundamental design elements of FTRs will operate within the market. FTRs provide an instrument that can be used to hedge the basis risk for a market participant arising from Locational Marginal Pricing (LMP), where the participant has entered into a Contract for Differences at a different node to where the participant either injects or withdraws energy. The CER has postponed issuance of the decision on FTR loss coverage and the formula to be used when settling FTRs, pending the outcome of the current MAE design consultation.

CER Contacts for MAE

For further information on any aspect of the MAE, please contact Ms Aoife Crowe at acrowe@cer.ie, or Mr. Eamonn Murtagh at emurtagh@cer.ie.

GAS MARKET ISSUES



Gas Capacity Statement

The CER is currently in the process of preparing its second annual Gas Capacity Statement. The statement will forecast flows and estimate customer demand on each part of Ireland's natural gas system for the forthcoming seven years. In particular, the report will assess system supply and demand and identify any requirements for future system development. In identifying appropriate areas for network extension, the Gas Capacity Statement will help to ensure the continuity and security of gas supply, as well as ensuring the most economic and efficient development of the network. As part of the Capacity Statement process, the CER has circulated a questionnaire to natural gas undertakings and to other market participants with a view to gaining an accurate estimation of potential supply and demand scenarios. Information received in this process will form an integral part of the final report.

For further information please contact Ms Claire Madden at cmadden@cer.ie.

Gas to Letterkenny

On behalf of the Department of Communications, Marine and Natural Resources, the CER has engaged consultants Fingleton McAdam to look at the feasibility of taking natural gas to Letterkenny, Co. Donegal. Funding for the study has been provided by the EU Interreg IIIA Programme for Ireland and Northern Ireland. A transmission pipeline is to be built to take gas to ESB's Coolkeeragh power station near Derry, Co. Londonderry and the CER is examining whether that pipeline could be extended to take natural gas to Letterkenny.

In the study, Fingleton McAdam will examine, among other things, the route options for any pipeline, the costs of each option, and the economic feasibility of any project. It is expected that the study will take approximately 3 months to complete.

For further information, please contact Mr. Mike Percival at mpercival@cer.ie.

Gas Market Opening and GMOWG

The Irish natural gas market has been opening to competition on a phased basis over the past number of years. Since 1995 the gas market has grown allowing more and more customers to choose Supplier. On 1st July the gas market opened further with all industrial and commercial customers becoming eligible to change natural gas Supplier, so that the number of eligible customers is now approximately 16,500. This has been the largest single tranche of customers to become eligible to choose a Supplier other than Bord Gáis Energy Supply. These 16,500 customers represent 86% by volume of the natural gas market.

The Gas Market Opening Working Group (GMOWG), an independent review group, was established to make recommendations to the CER on industry processes required to introduce competition in natural gas supply into the Irish market. This group has been working intensively over the past year to develop the rules and business processes to support the needs of all market participants and potential participants. These rules and business processes were in place for the 1st July market opening.

For further information please contact Mr. Paul Hogan at phogan@cer.ie.

Gas Legislation

The CER anticipates that in the near future the Department of Communications, Marine and Natural Resources will implement, via statutory instrument, provisions of Gas Directive 2003/55/EC not already transposed into Irish legislation. These provisions include conditions regarding public service obligations, consumer protection, licensing, regulatory accounts, unbundling of vertically integrated natural gas undertakings and third party access to natural gas pipelines and storage facilities.

The CER will incorporate those provisions that have not already been implemented into the appropriate regulatory framework, for example, the licence compliance programme and the transmission code of operations.

For further information please contact Ms Caroline Johnston at cjohnston@cer.ie.

GAS MARKET ISSUES...CONT.



Gas Tariffs

The CER is currently conducting a review of the structure of Bord Gáis Eireann's distribution and supply tariffs. A large number of responses to the consultation paper issued on 10th May (CER/04/182) were received and a number of meetings with interested parties were held. Arising from this consultation, the CER has decided that the move to marginal cost-based tariffs should occur in two stages:

Stage 1, which is now drawing to a conclusion, involves a review of current gas distribution and supply tariffs levels, not structures, with the intention of rebalancing current tariffs to more accurately reflect Bord Gáis' costs in different customer sectors. This is consistent with the stated aim of the Gas Tariff Review, which is to move gas tariffs to more market reflective levels. The rationale for this objective was explained in CER/04/182. In late July/early August the CER will issue two papers on gas tariffs. The first paper will summarise the comments received on CER/04/182 and detail the CER's response. The second paper will set out the CER's proposed distribution and supply tariffs arising from Stage 1 of the Gas Tariff Review. These tariffs, subject to consultation, will take effect on 1st October 2004.

Stage 2, which the CER has been progressing over recent months, involves a move to marginal cost-based tariffs that reflect market costs. The CER will issue a consultation paper by the end of October 2004 setting out its proposed changes to the current distribution and supply tariff structures. The consultation process will run for two months and the CER's final decision on distribution and supply tariff structures will be published in early January 2005. The resulting tariffs will take effect from 1st October 2005.

For further information please contact Mr. Tim O'Brien at tobrien@cer.ie.

Gas Licences

Section 16 (1) of the Gas (Interim) (Regulation) Act, 2002, allows the CER to grant licences to carry out the transmission, distribution, storage and supply (including shipping) of natural gas to customers.

On 16th April 2003 the CER issued draft Distribution, Transmission and Supply licences for public consultation. Having received responses from interested parties, on 6th February 2004, the CER published two response papers to address the comments received regarding the Distribution and Transmission licences. The final drafts of the Distribution and Transmission licences were also published on this date for substantive comment only. On 18th June, the CER published its decision on the Distribution licence (CER/04/218) and Transmission licence (CER/04/219), as well as accompanying final response papers (CER/04/220 and 221 for distribution and transmission respectively).

Following a similar process for the Supply licence, on 1st July the CER published its decision on the Gas Supply licence (CER/04/236) and accompanying response paper (CER/04/236A).

Licensing of the appropriate natural gas undertakings will commence shortly.

For further information please contact Ms Caroline Johnston at cjohnston@cer.ie.



ENVIRONMENTAL ISSUES



Moneypoint Power Station

In accordance with the determination by the Environmental Protection Agency (EPA) on the Integrated Pollution Control (IPC) licence for Moneypoint power station, ESB was faced with three options: Firstly, to close Moneypoint from 2008; secondly, to keep the plant open but to operate it on limited running hours between 2008-2015, if granted a derogation under the Large Combustion Plant (LCP) Directive; or finally, to keep the plant open through investment in abatement technology (for sulphur dioxide and nitrogen oxide) to meet LCP Directive standards.

The ESB Board has recently decided to invest in the abatement technology to comply with the LCP Directive, at an estimated cost of €368 million, subject to Government approval. This will enable operation of Moneypoint beyond 2015.

Emissions Trading

(a) National Allocation Plan (NAP)

On the 7th July 2004 the European Commission approved Ireland's NAP for the pilot phase of the EU Emissions Trading Scheme (ETS) 2005-2007. Following discussions between the Irish Government and the European Commission, Ireland incorporated two amendments to the original proposed NAP, to allow for (i) a reduction in the total quantity of carbon dioxide (CO₂) allowances to be allocated to the power generation sector; and (ii) the setting aside of allowances intended for new CHP plants or Known Planned Developments (within the power generation sector) which are not issued to such plants. The allowances set aside are now to be added to the new entrants' reserve rather than being returned to the existing power generation sector. The final NAP, including the exact allocations to each installation subject to the ETS, will be put to public consultation by the EPA in September 2004.

(b) Treatment of Emissions Trading Costs in the Power Generation Sector

In March 2004 the CER advised the Government on the potential impact of the EU ETS on the Irish

electricity sector. In particular, the CER raised concerns regarding potential windfall gains accruing to generators under the scheme, resulting from the free allocation of CO₂ allowances under the NAP, as well as the potential for significant increases in retail electricity prices if there were 100% cost "pass-through" of all costs (i.e. both from free allowances allocated and those purchased by generators). The CER also underlined the need for the wholesale price of electricity to reflect the full CO₂ cost, in order to give the correct environmental signal and not to disadvantage future power generation entrants.

In response to this submission, the Government made a decision to empower the CER through future legislation to "claw-back" from generators any such windfall gains arising from these free allowances. It was intended that the bulk of these gains would be recycled back into reducing the retail price of electricity, with a small percentage used in other areas such as Research and Development (R&D) on renewable generation. Legislation is being prepared at present and is expected to go before the Houses of the Oireachtas in Autumn 2004.

On the 1st July 2004, the CER published a Consultation Paper (CER/03245) outlining how it proposes to deal with CO₂ costs arising from the implementation of the EU ETS, in line with the Government decision.

For further information on these environmental issues, please contact Ms Clare Beausang at cbeausang@cer.ie.

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