Table of Contents

Note to Minister .......................... 4
Foreword by the Commission .......... 5
Statement of Best Practice .......... 7

1. Introduction ................................ 9
   Electricity Market Liberalisation .... 9
   Gas Market Liberalisation ...... 9

2. The CER’s Mission Statement ............. 11
   Overview of the electricity and gas sectors in Ireland in 2006 .... 11
   Electricity ................................ 11
   Natural Gas ................................. 13

3. Generation and Wholesale Market Division 2006 15
   Key Achievements in 2006 ............ 15
   Introduction ............................... 15
   Present Wholesale Market .............. 15
      Present Transitional Trading Arrangements ........ 15
      Trading & Settlement Code ........ 15
      Imbalance Energy Prices – Top-Up and Spill ........ 15
      Generation System – Performance and Monitoring ...... 15
      Generation System Monitoring .......... 16
      Fuel Mix in the Irish Generation sector ........ 17
      Agreement to Reduce ESB’s Market Share in the Power Generation Sector ........ 18
      Approval of ESB PG Revenue ........ 18
      Public Service Obligations ............ 19

4. All Island Markets Division 2006 ........ 21
   Key Achievements in 2006 ............ 21
   Introduction ............................... 21
      All Island Project Background ...... 21
      Single Electricity Market (SEM) .... 22
      The Development of the SEM: To date .......... 22
      Legislative Framework ................ 23
      Cost Benefit Analysis of the SEM .......... 23
      Trading and Settlement Code .......... 23
      Market Power Mitigation ............ 24
      Market Operator Establishment .... 25
      Market Participant Readiness .... 25
SEM electricity transmission workstreams 25
SEM Information 25
SEM Go-Live 25

5. Energy Networks 27

Key Achievements in 2006 27
Introduction 27
Electricity 27
Gate 2 Connections 27
EirGrid becomes Operational as Independent Transmission System Operator 28
East West Interconnection 28
Transmission Use-of-System Charges and Distribution Use-of-System Charges 28
Micro Generation 29

Gas 29
Gas Transmission and Distribution Revenues & Tariffs for 2006/07 30
Gas Connection Policy 31
Extension of Gas Network 31
Gas Market Advisory Retail Group (GMARG) 31
Gas Capacity Statement 32
Impact of UK Gas Transmission Exit Reforms 34
Network Access 34
South North Pipeline 34
Gas Storage 35

6. Environment, Retail and Consumer Affairs (ERCA) 37

Key Achievements in 2006 37
Introduction 37
Electricity Supply 37
2007 ESB PES Revenue Review 37
Electricity Tariffs 38
Fuel Price Variation and Tariffs for Large Energy Users 38
Retail Market Governance 39
Retail Market Regulation in the SEM 39
Gas Supply 39
Review of Competition in Gas Supply 39
Gas Supply Tariffs 39
Customer Protection and Complaints Management 40
Customer Protection 40
Complaints Coordination Service 40
Establishment of Customer Care Team 41
Renewables
  Generation Licensing
  Renewable Generation
  Fuel Disclosure for 2005

7. Gas and Electricity Safety
   Key Achievements for 2006
   Introduction
   Background
   Legislation
   Electricity Safety
     Ongoing Management of Voluntary Regulatory Regime
   Gas Safety
     Plan for Implementation of New Responsibilities – Electricity and Gas

8. Operations Division
   Key Achievements for 2006
   Introduction
     CER Office Move
     CER Human Resources Strategy
     Business Information Centre

Appendices
   CER Key Deliverables by Division for 2007
   CER Organisational Structure 2007
   CER Financial Statements for year ending 31 December 2006
Note to Minister

To: Mr Noel Dempsey, TD. Minister for Communications, Marine and Natural Resources,

In accordance with paragraph 25 (c) of the Schedule of the Electricity Regulation Act, 1999, we are pleased to present to you the eighth annual report of the Commission for Energy Regulation, in respect of the period from 1 January 2006 to 31 December 2006.

Tom Reeves
Chairperson

Michael G. Tutty
Commissioner
Foreword by the Commission

Tom Reeves  
Chairperson

Michael G. Tutty  
Commissioner

The energy sector in Ireland is at an important junction in its development. Seven years after the CER commenced the electricity market liberalisation process in Ireland, we are now on the brink of the establishment of the historic all island electricity market and the subsequent benefits which this market will deliver for customers. However reaching this point has not been a pain free process and 2006 was undoubtedly one of the more difficult years in the liberalisation process to date.

Most of the attention throughout 2006 in the energy sector was focussed on increases in the consumer prices of electricity and gas. Regrettably, the costs borne in the electricity system throughout 2006, particularly as a result of high international fuel prices, resulted in a requirement for an increase in electricity prices of 12.6% (1 January 2007). In the natural gas sector, there was a requirement for a 33.8% increase in gas prices from 1 October 2006. Wholesale prices started to fall back in the autumn of 2006 and the Commission was in a position to reduce the natural gas price by 10% from 1 February 2007.

The reversal in the upward trend of oil and gas prices towards the end of 2006 is of course to be welcomed and it now sets all in the energy industry in Ireland the challenge of ensuring the customer receives the full benefit of these lower international fuel prices. The Commission has set itself the task of ensuring that the prices charged to customers are fair and reasonable and will monitor all electricity and gas suppliers in 2007 to ensure that customers receive a fair deal.

2006 was not just a difficult year for gas and electricity customers in Ireland; significant consumer price increases were recorded in many European countries and across the developed world. However on a positive note, Ireland’s security and reliability of electricity supply remained consistent and satisfactory during 2006. This reliability in recent years has underpinned the extraordinary growth in the Irish economy; without a world-class electricity and gas system Ireland’s economy would not be in the position that it is in today. Over €3 billion was sanctioned by the Commission for investment in the electricity network between 2001 and 2005, with another €2 billion to be invested between 2006 and 2010. With regard to the gas network, €360 million was invested between 2003 and 2007, while the Commission will approve a further significant investment and upgrade package for the next 5 years, during 2007. Demand for electricity and gas is growing by up to 5% per annum in Ireland. Most other European countries record demand growth of around 1% per annum.

The security and reliability of supplies are a significant attraction for overseas investment and represent a competitive advantage for Irish businesses. Businesses and residential customers in Ireland have not experienced the major unplanned outages which have been recorded in recent years across Europe and the US.

However while energy prices received the attention during 2006, a significant volume of work in other
areas was also completed by the CER. Some of the highlights of the year from a regulatory point of view are listed below:

- The signing of the CER-ESB Asset Strategy Agreement in late 2006. This agreement sets in motion a series of events which will see ESB’s market share in the generation sector reduced to 40% by 2010.

- The continued design and development of the SEM (Single Electricity Market). The project continues apace towards the go-live date of 1 November 2007 for the start of the SEM.

- The announcement of the Commission’s decision on Gate 2 connections to the electricity networks, which will see an additional 1,300 MW of renewable energy (mostly wind generation), brought onto the electricity system in the next 2 – 3 years.

- The publication of the CER’s first report to the European Commission on security of electricity supply. This report takes a proactive forward looking view of Ireland’s electricity requirements in the medium term and how these demands will best be met.

- The decision to extend the natural gas network along the route of the Galway-Mayo pipeline to include 11 additional towns.

- Internally the CER commenced the establishment of a new Customer Care function and a Business Information Centre (BIC). These new functions will improve the operational efficiency of the CER and offer an improved quality of service to CER’s stakeholders and to customers of all gas and electricity suppliers and network operators.

At an organisational level, the Commission became a two person body during 2006, when Ms. Regina Finn decided to take up the position as Chief Executive of Ofwat, the economic regulator for the water and sewerage industry in England and Wales. The Commission would like to take this opportunity to thank Regina for all her hard work and enthusiasm during her time with the CER and also to wish her all the best in her new role.

On another important note, the Commission moved office premises in late 2006. This was a major project involving the identification of suitable new premises and the design and kit-out of an office environment to suit the CER’s structure and requirements. Symbolically too, CER’s office move challenges the organisation to renew itself and to look forward with increased vigour to the steps in the market liberalisation process which are ahead over the next few years.

The first of these steps arrives in 2007, with the commencement of the SEM. The establishment of this ground breaking cross border market will be a key moment for the development of competition in the Irish electricity sector. 2007 will also see full opening of the gas market in Ireland. Furthermore the Commission at this point is hopeful that further reductions in gas and electricity prices can be achieved during 2007. The wholesale market trends for generation fuels are positive; if this trend continues further reductions in gas and electricity prices are likely.

In conclusion the Commission believes that 2006 will prove to be a watershed; a corner has been turned with regard to both energy prices and the market liberalisation process in Ireland. Electricity and gas customers can now look forward to an improved outlook from 2007 onwards. A significant body of work remains to be done however. The CER is committed to leading the Irish energy sector into this new and exciting phase.

Tom Reeves
Chairperson

Michael G. Tutty
Commissioner
Statement of Best Practice

We wish to state that the Commission continues and will continue to adopt best practice in the area of corporate governance in the carrying out its functions and duties. In this regard, the Commission has fully complied during 2006 and in previous years with the Code of Practice for the Governance of State Bodies which was published by the Department of Finance in October 2001. The Commission is also committed to complying with the Code in 2007 and future years.

We hereby confirm that, we are not directly engaged in, concerned in or interested in any electricity generating business or in any electricity or natural gas transmission, distribution or supply business or in any energy business, whether as participator, investor, consultant or otherwise. And in respect of the period covered by this report, there are no registrable interests, as specified in the Ethics in Public Office Acts 1995 and 2001 and the Gas (Interim) (Regulation) Act 2002, of our own, or, to our actual knowledge, of a spouse or child, which could materially influence us in, or in relation to, the performance of the functions of our position.

Tom Reeves  
Chairperson

Michael G. Tutty  
Commissioner
Introduction

The Annual Report of the Commission for Energy Regulation (CER) for the year 2006 provides an outline of the CER’s key work items for 2006 and achievements as well as providing a commentary on electricity and gas market developments in Ireland throughout 2006. The annual report is also designed to serve as an outlook for the year ahead while details of the Commission’s policy for the liberalisation of electricity and gas markets in Ireland will also be outlined.

Electricity Market Liberalisation

The market liberalisation process commenced in Ireland in the year 2000, with the early stages of the retail market opening project allowing competition for some of the largest electricity users in the country. Full market opening took place in February 2005 when the structures and rules were put in place to allow all electricity customers in the country to change their electricity supplier.

In parallel with this, the Commission and the Northern Ireland Regulator’s Office (NIAER: Northern Ireland Authority for Energy Regulation) commenced a project to develop an all island energy market, in 2004. The first step in this process is to implement a new wholesale electricity market for the island of Ireland by November 2007. This market will be known as the Single Electricity Market (SEM). The development of the SEM is one of the most critical pieces of the market liberalisation jigsaw on this island.

Considerable work remains to be done before the objective of a fully competitive market, both in the wholesale and retail sectors, is realised. Although the market share by volume of Independent Suppliers now exceeds 50% for the first time, competitive choice is yet to filter down to the domestic customers’ level. However the Commission remains convinced that in time competition in all sectors of the market can be achieved. The establishment of the SEM will be an important factor in achieving this goal. It is expected that the market share of Independent Suppliers will increase further in 2007 and 2008, particularly in response to the establishment of the SEM in late 2007.

Gas Market Liberalisation

In the natural gas sector, market size with just over half a million customers, has long been a key constraint on the development of competition in the gas sector in Ireland. Furthermore Ireland does not have a wholesale gas market, or balancing point, with gas entering Ireland being traded through the UK market and national balancing point. With almost 90% of gas consumed in Ireland being imported from the UK, the obstacles which exist for achieving market efficiencies and promoting competition are clear.

However despite these obstacles, 2007 will be an important year in the evolution of the gas market in Ireland as well. Full market opening of the natural gas market is due to take place before July 2007, once the necessary legislation has been put in place. At present the market is around 86% open. The sector will also benefit from the CER’s decision and mechanisms which will be developed to promote competition in the gas market. This "Review of Competition in Gas Supply" project was initiated in 2006, with preliminary findings outlined and various proposals to benefit customers being made. The CER now aims to make its decision and start the process of implementing the review’s recommendations. In particular, initiatives to address the economies of scale in the sourcing of
wholesale gas will be developed. These will be developed taking account the changes to the UK gas transmission regime which may be developed by the British regulator, OFGEM (Office for Gas and Electricity Markets), throughout 2007.

Furthermore in the gas sector, the Commission will make its decision on the five year revenue review for Bord Gáis Networks and Bord Gáis Energy Supply in 2007. This review will provide clarity and direction to the gas industry over the next 5 years, indicating the levels of investment in the gas networks which will be made as well as implementing significant efficiencies in the regulated companies.
The CER’s Mission Statement

On 16 February 2007, the Commission outlined its updated mission statement.

The CER’s mission statement is as follows:

In a world where energy supply and prices are highly volatile, the mission of the CER, acting in the interests of consumers, is to ensure that:

- the lights stay on
- the gas continues to flow
- the prices charged are fair and reasonable
- the environment is protected, and
- electricity and gas are supplied safely

The Commission is committed to carrying out our functions in a fair, impartial, balanced and transparent manner. We will provide a professional and efficient service to all our stakeholders and will act with integrity and impartiality at all times.

Overview of the electricity and gas sectors

The electricity and gas sectors are often described as being complex and technical. In this section the Commission aims to provide a high level non-technical overview of the two sectors and the key bodies involved in delivering electricity and gas into homes and businesses.

Electricity

- **Market structure:** Modern Electricity systems are split into wholesale markets (or trading arrangements) and retail or supply markets. These two markets refer to the “flow of money” in the electricity system rather than the physical flow of electricity. Electricity cannot be stored in large quantities and so a constant balance must be maintained between the two markets; that is between the level of electricity being generated and sold to electricity suppliers and the demand for electricity by customers.

- **Wholesale markets:** The wholesale market involves the sale of electricity by a generator to a supply company and the competitive interactions between different generators. The retail market refers to the sale of electricity from these supply companies to the final customer and the competition which exists between various supply companies. The wholesale market is an inherently capital intensive system due to the scale and investment costs required to develop a generation station. Investment and capital costs to enter the retail market are on the other hand comparatively low, with billing and marketing systems typically being the largest capital outlay to enter the supply market. Figure 1.0 below outlines typical electricity market structures as well as physical flow of electricity.

![FIGURE 1.0: ELECTRICITY FLOWS, PHYSICAL AND MARKET](image-url)
**Present wholesale trading arrangements:**
The Generation team within the Generation and Safety Division of the CER is responsible for regulating the present wholesale trading arrangements in Ireland. In the present market, generators typically only sell their output under a bi-lateral trading arrangement to one supply company. In most cases, both the generator and supplier are owned by the one parent company. For example ESB Power Generation sells the majority of its output to ESB Customer Supply (ESB CS).

**The SEM:** The All Island Markets Division within the CER is responsible, in cooperation with the CER’s colleagues in the Northern Ireland Regulator’s office, for the design, development and implementation of the SEM (Single Electricity Market). The SEM will be a new wholesale electricity market, or trading arrangements, for the island of Ireland. It will mean that any generator on the island, can sell its power output to a supplier located anywhere on the island. This is a significant change from the present trading arrangements.

**The electricity supply market:** The Environment, Retail and Consumer Affairs (ERCA) Division of the CER is responsible for regulating electricity supply companies operating in the market. The market has been fully opened to competition since February 2005, meaning that a company with an electricity supply licence can compete for any electricity customer in the country. Competition is very strong amongst large users of electricity, but most domestic (household customers) are still supplied by ESB PES.

**Electricity networks:** Electricity networks must be regulated in a different manner to the regulation of electricity generation and supply. This is because the generation and retail functions are parts of the supply chain where it is possible to develop a liquid and functioning competitive market. It does not make sense on the other hand to develop competing electricity networks. The capital investment required would simply be too great.

**Natural monopolies:** For these reasons, electricity networks are considered to be natural monopolies and must be regulated as such. The Energy Networks Division within the CER is responsible for the regulation of the electricity network in Ireland.

**Transmission and distribution systems:** There are essentially two types of electricity network: the transmission system and the distribution system. The transmission system refers to the high voltage wires which transport electricity from the generation stations closer to the demand centre. Electricity substations are located at “nodes” on the network; these are points where transformers are located which reduce the voltage of the electricity to a level which is more in line with customers’ requirements. The electricity distribution system then is the medium and lower voltage lines which transport electricity from the transformer sub-station to a customer’s premises. Meter points are located at the intersection of the distribution system and the customer’s premises in order to record the level of electricity that is used by that customer.

**Electricity network ownership:** The electricity transmission and distribution systems in Ireland are owned by ESB Networks. This company is referred to as the Transmission Asset Owner (TAO) and Distribution Asset Owner (DAO).

**Transmission System Operator (TSO):** The electricity transmission system is operated by a separate company called EirGrid. EirGrid is referred to as the Transmission System Operator (TSO). This company is responsible for calling generators onto or off the system as demand for electricity increases or declines throughout the day. EirGrid is also responsible for “Settlement” which is the balancing of volumes traded between generators and suppliers over the transmission network and the monies owed for this trading.
Distribution System Operator (DSO): ESB Networks is the Distribution System Operator (DSO). This role primarily involves development and maintenance of the medium and low voltage electricity network, connection of new houses and businesses, metering of electricity consumption and billing of suppliers for volumes of electricity sold.

Natural Gas

Market structure: Gas markets tend to operate in a similar manner to electricity markets with gas shippers selling gas to suppliers who bill customers for the gas consumed. The gas is transported along a network from its source (e.g. North Sea gas) to its destination (e.g. power station, business or home).

Wholesale market: There is no wholesale market for gas in Ireland. Instead gas shippers and suppliers operating in Ireland trade in the UK wholesale gas market. Gas is purchased in this market and transported to Ireland across an interconnector from Scotland. The Energy Networks Division within the CER is primarily responsible for regulating the rules and procedures for transporting gas into Ireland. This task is heavily dependent upon the rules in place in the UK.

Supply market: The gas supply market operates in a similar manner to the electricity supply market. Gas suppliers compete for customers on the basis of price and quality of service. The gas market is not fully opened to competition as of yet and Bord Gáis Energy Supply remains as the largest supplier. Full market opening of the gas market, as required under EU legislation, is due to take place before 1 July 2007. The gas supply market in Ireland is regulated by the Environment, Retail and Consumer Affairs Division (ERCA) within the CER.

Gas networks: Gas networks are also made up of a transmission system and a distribution system. The gas networks are also natural monopolies due to their capital intensive nature. The Energy Networks Division within the CER has responsibility for the regulation of the gas transmission and distribution systems in Ireland.

Transmission system: The Irish gas transmission system is made up of the key transportation pipelines which deliver gas at high pressure to the major demand centres.

Distribution system: The distribution system is the local network of pipelines which delivers gas around the demand centres and into each gas connection point (home or business). Just like in the electricity sector, gas is metered at the point of consumption.

Network ownership and operation: Bord Gáis Networks is the network asset owner in Ireland. This company also operates the transmission and distribution systems in Ireland (TSO – Transmission System Operator, DSO – Distribution System Operator).
Generation and Wholesale Market Division 2006

Key Achievements in 2006
- CER-ESB Asset Strategy Agreement to reduce ESB’s generation market share to 40% by 2010
- Review of ESBPG’s allowed revenues for 2007
- Monitoring and analysis of security of supply and generation adequacy
- Publication of Report to European Commission on Ireland’s Security of Supply
- Public Service Obligation (PSO) for 2007
- Commencement of arrangements for transition from present wholesale market to new SEM market

Introduction

The Generation and Existing Wholesale Markets division is responsible for the operation of the present wholesale market, the security of electricity supplies and the regulation of ESB Power Generation (ESB PG), the largest electricity generator in Ireland. 2007 will be the last trading year of the present electricity wholesale market, as the new Single Electricity Market (SEM) trading arrangements will come into operation on 1 November 2007.

Present Wholesale Market

Present Transitional Trading Arrangements

A policy direction issued in July 1999 by the then Minister for Public Enterprise to the CER, in accordance with Section 9(1)(a) of the Electricity Regulation Act, 1999 established the present trading arrangements for electricity in Ireland.

The rules concerning the operation of the market are set out in the Trading and Settlement Code, as prescribed under S.I. 49 of 2000. The Trading and Settlement Code is subject to on-going review by the CER and the review panel it established and chairs (Trading and Settlement Code Modification Panel).

In the present transitional wholesale market, generators contract directly with suppliers for the sale of electricity. A shortfall or excess of energy with respect to these contracts is dealt with through the imbalance market, where electricity sold into the market is paid a Spill price, whereas electricity bought from the market is charged a Top-Up price.

Trading & Settlement Code

In 2006, the Commission reviewed, and made some amendments to, several of the rules concerning the existing wholesale trading arrangements. In particular, the Commission reviewed the Code rules, procedures and processes relating to security cover, the release of data to market participants and rules for the determination of the spill price. The Commission also approved the introduction of an automated process for resettlement.

Imbalance Energy Prices – Top-Up and Spill

Under the present arrangements, the Commission is responsible each year for calculating the Best New Entrant (BNE) price and, subsequently, the Top-Up and secondary Top-Up prices.

The Commission carried out its annual review of the BNE, Top-Up and Secondary Top-Up prices and confirmed the prices to apply for 2007. The BNE price for 2007 was calculated to be €86.40/MWh (CER/06/148).

Generation System – Performance and Monitoring

The Commission is committed to ensuring that Ireland’s electricity system is adequately secure in
order to safeguard the interests of final customers. Security of supply essentially involves ensuring that there is enough generation capacity available in the market to meet the peak demand on each day of the year.

**Generation System Performance**

The Commission has been closely monitoring the performance of the generation system, in terms of network and generation performance and availability, and the construction of new generation plant.

Peak demand for 2006 was 5,035 MW recorded on 19 December 2006. This was an increase of 4.9% over the peak recorded for 2005. Despite this record high, the electricity system remained secure in 2006 and an adequate margin of generation above that required to meet demand was maintained. The chart below shows the trend in the growth of peak demand on the system from 2000 to 2006.

Ireland’s plant capacity was significantly augmented in 2006, following the commissioning of two large new generation plants at Aughinish/Sealrock and Tynagh, adding in total almost 550MW of new dispatchable generation capacity to the system. These plants were constructed following a competition run by the Commission in order to protect the security of electricity supplies. Combined, these plants added an extra 10% to generation capacity of the Irish system.

**Generation System Monitoring**

The Commission is continuing to closely monitor the current and future expected system conditions. In co-operation with EirGrid, the CER carries out extensive monitoring to assist in identifying any issues affecting security of supply at an early stage so that any necessary measures can be taken.

With respect to shorter term monitoring, the Commission has a weekly monitoring process and on occasions a daily monitoring process where significant system issues arise. A weekly report is published on the Commission’s website (www.cer.ie) which provides information about the performance of the generation system.

**FIGURE 2.0: GROWTH IN PEAK DEMAND 2000 - 2006**

With respect to longer-term monitoring, the Commission produces a report every two years on its monitoring of Security of Supply. This report is produced in accordance with the requirements of Directive No. 2003/54/EC and Statutory Instrument No. 60 of 2005. In the report, the Commission
describes its monitoring activities, presents the conclusions drawn from that monitoring and the measures being taken, or planned to be taken, to protect Ireland’s security of supply of electricity.

The first of these reports, published in August 2006, examined the key areas of fuel, networks, generation and demand. The report identified several key issues affecting Ireland’s security of electricity supplies over the coming years. The Commission has introduced a number of measures to manage these issues and to protect security of supply.

In the medium-long term, security of supply will be enhanced with the development of additional electrical interconnection and the development of the Single Electricity Market, and the resulting all-island approach to security of supply.

Fuel Mix in the Irish Generation sector

The security of supply report outlined the present fuel mix in the Irish generation sector. The results indicated a heavy reliance on imported fossil fuels such as natural gas, coal and oil for the generation of our electricity. All of these fuels are traded on volatile international wholesale markets. This reliance on imported fossil fuels is one of the key reasons why Irish electricity prices are relatively high in comparison to many other EU countries.

The table below provides an indication of the installed plant, by fuel, for 2006:

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>MW</th>
<th>% of Total Installed MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>3111</td>
<td>45%</td>
</tr>
<tr>
<td>Coal</td>
<td>858</td>
<td>13%</td>
</tr>
<tr>
<td>Oil</td>
<td>1014</td>
<td>15%</td>
</tr>
<tr>
<td>Dispatchable Hydro</td>
<td>508</td>
<td>7%</td>
</tr>
<tr>
<td>Peat</td>
<td>346</td>
<td>5%</td>
</tr>
<tr>
<td>Non-dispatchable*</td>
<td>1007</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6843</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Non-dispatchable includes wind, (12%) and hydro, biomass, CHP and industrial generation (accounting for 3%)

Source: CER report to EU Commission on Security of Electricity Supply

The table indicates that gas, coal and oil are the primary fuels by installed capacity (accounting for 73% of installed capacity and 86% of dispatchable capacity). An examination of the actual generation output per fuel type provides an indication of the dominance of gas and coal in the generation system (see Figure 3.0 below):
Agreement to Reduce ESB’s Market Share in the Power Generation Sector

In November 2006, the Commission agreed a package of measures with ESB Power Generation (ESBPG) which would see the company’s share of the electricity generation market reduced to around 40% by 2010. This agreement is referred to as the “CER–ESB Asset Strategy” Agreement and its implementation is one of the CER’s key priorities for 2007.

This agreement provides for the following package of measures:

1. ESB will close or divest 1,300 MW of existing power plant by 2010. This represents almost 30% of ESB’s present generation capacity. The Commission will oversee the process, ensuring that the appropriate mid-merit plants to reduce ESB’s market power are closed or divested;

2. ESB will sell peaking capacity plant (in total 208 MW), including sites and infrastructure, at Rhode, Co. Offaly and Tawnaghmore, Co. Mayo, in 2007;

3. The site of the former Shannonbridge and Lanesboro stations will be offered for sale to Independent Generators, in 2007, for the construction and connection of new generation plant;

4. ESB will make available other sites with a capacity of 300 MW by end June 2007 and a further 700 MW by 2010.

A detailed implementation plan with regard to the above programme of measures is to be agreed by the end of June 2007. This will include identification of the particular plants or sites to be closed or divested and the timings of these events.

In summary, these measures will result in the availability by 2010 of a significant land-bank of “generation-ready” sites for Independent Power Producers to develop, as well as reducing ESB’s share in the generation market.

In return for the implementation of this package of measures, the Commission agreed to authorise the construction by ESB of a new ~400MW power station at Aghada, Co. Cork. The CER has reserved the right to direct the sale of this plant by ESB if insufficient progress has been made in the programme of above measures to reduce ESB market share. This authorisation was granted in February 2007.

This agreement is a major step forward in facilitating the development of competition in the electricity market in Ireland. In addition, these measures will lead to a more streamlined and efficient ESB and a better functioning market in Ireland, for the benefit of electricity customers.

Approval of ESB PG Revenue

Since 2001, the Commission has approved the annual revenue that ESB Power Generation may earn from electricity sales to ESB Public Electricity Supply (PES) to cover its allowed costs. The allowable revenue that ESB PG may earn is set on a €/MWh basis, referred to as the wholesale ESB PG-PES price, which is profiled on the basis of time of day and season. This is a key price due to its impact on the final price of electricity faced by customers of ESB PES.

During 2006 the Commission undertook a comprehensive review of the revenue that ESB PG may derive from ESB PES in 2007, prior to the commencement of the SEM. This included a review of ESB PG’s controllable costs, such as payroll and depreciation, as well as market driven costs such as insurance and fuel.

A substantial under recovery of costs of €151 million arose during 2005 and 2006. The key driver behind this under recovery was the unanticipated and significant increase in fuel prices during these years. ESBPG’s fuel costs during 2005 and 2006 amounted to approximately €358 million more than had been estimated in 2005. Higher income from independent market participants, for example through Top-Up sales and lower overhaul expenditure, offset this increased fuel cost to a large degree. However, taking this and other lower costs into account, a significant deficit existed which had to be recovered in 2007 tariffs. The Commission decided to allow ESBPG to recover the
deficit of €151 million over the first 10 months of 2007, prior to the start of the SEM.

This contributed to an allowable revenue for ESB PG from ESB PES for 2007 of €778.8 million (CER/06/203). 2007 Allowed Costs and Revenues costs were provided on a 10-month basis up to the implementation date for the SEM (1 November 2007). This resulted in an increase in the ESB PG-PES wholesale price of electricity from 2006 to 2007 by 20% to €106.4/MWh.

Public Service Obligations

The Public Service Obligation (PSO) has been imposed on the ESB since January 2003 and has been amended from time to time since then. It requires ESB PES to source power from specified indigenous plant including peat, renewable and other sustainable sources. The additional cost associated with this is calculated by the Commission and is recovered from all electricity customers in the form of an additional charge on their bill. The PSO levy is imposed by the Commission under the Electricity Regulation Act 1999 (Public Service Obligations) Order 2002, (S.I. No. 217 of 2002). In addition, the extra costs to the ESB associated with peaking capacity required to meet electricity demand are covered by the PSO levy as well as the administration costs incurred in collection of the levy.

Once approved by the Commission, these additional costs are apportioned among all final customers on the basis of the maximum demand attributed to each category of domestic, small/medium and large customer accounts. The PSO is seen as a separate line item on all final customers’ bills.

In 2006 the Commission approved the total amount to be recovered via the levy in 2007 (CER/06/147) as €2,786,166, compared to a figure of €44,173,042 for 2006. This difference was primarily driven by an increase in the Best New Entrant Price (BNE) against which the additional costs to be recovered through the PSO levy are calculated. In consideration of the level of costs to be recovered via the PSO levy in 2007 and the resultant very low levy, the Commission decided that the 2007 levy would be set to zero. This is on the basis that the administrative work involved in collecting the levy from all customers would be unduly onerous relative to the costs to be recovered. The PSO costs will be rolled-over to the following year’s (2008) allowed PSO costs.
Key Achievements in 2006

- Publication of version 1.0 of the Trading and Settlement Code for the SEM in February 2006
- Market Power Mitigation Strategy for the SEM in April 2006
- Recalibration of SEM delivery date in August 2006 to ensure readiness of all participants and stakeholders
- Capacity Payment Mechanism Decision in July 2006
- Single Electricity Market Bill initiated in the Oireachtas in November 2006
- Northern Ireland Order published for consultation in November 2006

Introduction

Within the CER, the All Island Markets Division works exclusively on the development of the All-Island Energy Market (AIEM). The Division works in partnership with the Northern Ireland Authority for Energy Regulation (NIAER) on this key policy initiative.

The first task in the development of an All-Island Energy Market (AIEM) is the establishment of the SEM (Single Electricity Market). This is the establishment of new wholesale electricity trading arrangements for the island of Ireland. The key driver behind the establishment of the SEM is the promotion of wholesale competition between generators across Ireland and Northern Ireland and the associated benefits which this will bring for customers in both jurisdictions.

2006 was an important year in the continued development of the SEM, with significant progress being made on many of the SEM design and implementation work-streams. The Commission and NIAER also made an important decision regarding the go-live date of the SEM in August 2006. The SEM will now go-live on 1 November 2007, rather than 1 July 2007 as had previously been advised. The Regulatory Authorities made this decision in order to ensure the readiness of all participants and stakeholders. The importance of the development of the SEM to the market liberalisation process cannot be over-stated and the two regulators are confident that the new SEM implementation timetable is the correct one to ensure the successful delivery of the new market.

All Island Project Background

The All Island Energy Market (AIEM) was initiated in 2003 by the Minister for Communications, Marine and Natural Resources in Ireland and the Minister for Enterprise, Trade and Investment in Northern Ireland with the establishment of the All-Island Energy Market Steering Group. This steering group consists of representatives from the two government departments and also the Commission and NIAER.

The goals of the AIEM were set with the publication of the Development Framework Document in November 2004. This key policy document sets out the strategic goals of the AIEM and also the short and medium term priorities that need addressing, which included the following:

- market and network infrastructure;
- market trading arrangements and investment;
- dominance and market power;
- sustainable development;
- legislative and administrative design;
- retail market design.
Single Electricity Market (SEM)

In August 2004, the two regulators signed a Memorandum of Understanding (MOU), setting out the principles under which a common wholesale electricity market would be developed. The SEM is the first major deliverable of the AIEM.

The Development of the SEM: To date

<table>
<thead>
<tr>
<th>TABLE 2.0: SEM DEVELOPMENT DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEM Feature</td>
</tr>
<tr>
<td>Early SEM Design</td>
</tr>
</tbody>
</table>
| Design Features                    | ■ The decision sets out that the SEM will be a gross mandatory pool design where all electricity is bought and sold through a central pool.  
■ There will be a de minimus level (10MW), below which generators are not obliged sell into the pool.  
■ Generation will be scheduled by the Single Market Operator (SMO) based on bids submitted by generators and will then be centrally dispatched by the System Operators (SO). This means that the lowest cost generation will be scheduled to meet demand in any half-hour trading period. |
| Market Settlement                  | The market will be settled on a half-hourly basis with all scheduled generators receiving the single System Marginal Price (SMP) to cover their short run marginal costs. |
| Capacity Payment Mechanism         | There will also be a Capacity Payment Mechanism (CPM) by which generators will be paid a contribution to their fixed costs based on their availability to generate. |
| Transmission constraints           | The market will be scheduled on an unconstrained basis but inevitably there will be constraints on the systems. In such instances generators will receive payments for being turned up or down at times of constraint. |
| Trading and Settlement Code        | The market will be defined and underpinned in the Trading and Settlement Code, the contract which sets out all the trading rules, obligations and liabilities. |
| Market Power                       | Another integral part of the SEM will be the Market Power Mitigation Strategy. This strategy will limit the ability of generators with a large market share to distort the SMP and exercise market power which would be to the detriment of other participants and ultimately customers. |
| Transmission Policy                | The development of the SEM will also see a common shallow transmission connection policy on all-island basis which has driven many transmission related decisions. |
The diagram below outlines the design of the SEM Pool at a high level, indicating that all electricity will be sold into and purchased out of a single pool accompanied by financial hedge contracts to mitigate against the risk of pool price fluctuations.

Each element of the SEM is discussed below with a description of progress during 2006.

**FIGURE 4.0: SEM DESIGN**

![Diagram of SEM Design](image)

### Legislative Framework

It is of paramount importance that the SEM is underpinned by parallel legislation in both jurisdictions. Over the course of 2006, good progress was made in developing draft SEM legislation in both jurisdictions. By early 2007, legislation in both Ireland and Northern Ireland to support the introduction of the SEM - the “Electricity Regulation (Amendment) (Single Electricity Market) Bill 2006” or “SEM Bill” and the Order in Council, the “Electricity (Single Electricity Market) Northern Ireland Order 2007 (November 2006)” or “NI Order” - are proceeding through the legislative process in the Oireachtas and Westminster respectively.

Specifically, the SEM Bill provides for, inter alia, the following:

- the establishment of the Single Electricity Market Committee (the SEM Committee);
- the duties and functions of the Commission in relation to the Single Electricity Market;
- the provision of specific powers for a Single Electricity Market Operator licence to be issued in order to facilitate the functioning of the SEM;
- transitional regulatory powers to make changes to licence conditions considered necessary/expedient for the introduction of the SEM;
- provision for the CER to approve a statement of charges by the market operator and;
- arrangements and agreements relating to the connection to and use of the all-island transmission networks.

The SEM Bill is due to be enacted in 2007 once passed by both houses of the Oireachtas.

### Cost Benefit Analysis of the SEM

In 2006, the Regulatory Authorities carried out a full cost benefit analysis of the SEM (AIP/SEM/207/06). This report concluded that in addition to economic benefits, the SEM will result in improved competition, reduced market power, environmental savings, improved co-ordination of transmission operation and enhanced effectiveness of regulatory institutions from pooling of experience. This report looked at a 10 year time horizon comparing the SEM to a business as usual scenario where current structures remain in Ireland and Northern Ireland.

### Trading and Settlement Code

A central element of the SEM arrangements will be the Trading & Settlement Code (T&SC), the multilateral contract to which the following will be required to be party:

(a) each party purchasing energy from or selling energy to the Pool; and

(b) the Transmission System Operator (both in its own capacity and in its capacity as a party to the contractual joint venture that will constitute the Single Market Operator), Distribution System Operator and Transmission Asset Owner in each of the two jurisdictions, and the Meter Data Providers that provide metering services to the respective electricity industries.

The T&SC is intended to set out the rights and obligations applicable to each party under the SEM.
in sufficient detail and with sufficient precision to stand as a legally robust and binding record of the SEM trading arrangements.

Version 0.10 of the T&SC was published in late 2005, and was agreed between the Regulatory Authorities and the System Operators to form the basis of the specification used in the procurement of the central market IT system. Following a public consultation in relation to version 0.10 and the amendment of the document to better reflect the proposed trading arrangements, version 1.0 of the T&SC was published on 15 February 2006.

A formal change control process has been established between the Regulatory Authorities and the System Operators to manage and coordinate proposed modifications to the T&SC.

In addition, the detailed review of version 1.0 of the T&SC was commenced by the Regulatory Authorities’ legal advisors in late 2006, in order to ensure that the document is legally robust and will be fully enforceable in accordance with its terms.

**Market Power Mitigation**

In the development of the SEM, the Regulatory Authorities are mindful of the need to ensure that no market participant can abuse market power and undermine the benefits of the SEM. To this end, the Regulatory Authorities have developed a strategy to mitigate market power. In April 2006, following consultation, the Regulatory Authorities published their decision on Market Power Mitigation in the SEM (AIP/SEM/31/06). This decision set out the tools that the Regulatory Authorities will use to mitigate market power. These are described below:

<table>
<thead>
<tr>
<th>Market Power Mitigation Mechanism</th>
<th>Description of Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1) Directed Contracts</strong></td>
<td>Generators with large market shares are required to sell power forward in quantities and in line with price methodologies set by the Regulatory Authorities. The quantification of these contracts will be based on a generators concentration in the market.</td>
</tr>
<tr>
<td><strong>2) Bidding Principles and Local Market Power</strong></td>
<td>Bidding principles require generators to bid their short run marginal costs (SRMC) into the market.</td>
</tr>
<tr>
<td><strong>3) Strengthened Ringfencing</strong></td>
<td>In 2006, the Regulatory Authorities published an independent report on ringfencing arrangements for the SEM (AIP/SEM/91/06). Ringfencing refers to the independent operation of different business units of the same company. This report concluded that the generation ringfencing requirements that are currently in place are reasonable and, with regulatory oversight, are sufficient to address concerns over cross-subsidisation and preferential treatment.</td>
</tr>
<tr>
<td><strong>4) Market Monitoring</strong></td>
<td>A market monitor will be put in place that will be independent to all market participants and will have a reporting function to the Regulatory Authorities. Its function will be to monitor the market to ensure that it is workably competitive.</td>
</tr>
</tbody>
</table>
Market Operator Establishment

The SEM design outlined in the 2005 high level decision paper requires that a Single Market Operator (SMO) be in place to schedule the market, settle energy payments and administer other market related cash-flows. To ensure successful SEM Go-Live on 1 November 2007, the SMO must be established before the commencement of Market Trials in July 2007.

With this in mind, the Regulatory Authorities have drafted market operator licences which will place obligations on both SONI Limited (“SONI”) and EirGrid plc (“EirGrid”) requiring them to enter into a Market Operator Agreement for the purpose of establishing and operating the SMO business. These licences have been published for public consultation.

Detailed rules for the establishment and operation of the SMO have also been refined and included in the SEM Trading and Settlement Code. In addition, the Regulatory Authorities have worked in conjunction with both SONI and EirGrid to ensure that the systems required by the SMO will be in place before the commencement of market trials in July 2007. Preliminary views on the regulation of the SMO were also established by the Regulatory Authorities during 2006.

Market Participant Readiness

Participant readiness to fully engage in the new market will be a significant factor in the SEM Go-Live decision. The responsibility for participant readiness lies with each individual market participant. However, it is the responsibility of the Regulatory Authorities to ensure that participants have all the information they require to support their internal readiness activities.

To operate within the SEM, participants will need to revise their current business processes and the IT systems necessary to support these processes. The majority of these readiness activities must be completed by 16 July 2007, in order to participate in the SEM Market Trials. The remainder of the readiness activities must be completed prior to full commercial operation of the SEM on the 1 November 2007.

To facilitate Participant Readiness efforts, the Regulatory Authorities and the System Operators have established a number of communication channels with participants. The primary communication channels are the Expert Groups, which have been set up to gain participant input and share information on the SEM development programme. These groups have played a significant role in the development of the SEM design.

SEM electricity transmission workstreams

In 2006, the Regulatory Authorities initiated and progressed a number of workstreams related to the harmonisation of the electricity transmission networks and transmission rules. These workstreams include developing a coordinated approach to system planning north and south of the border, the production of common sections of a Grid code and ancillary services harmonisation. Furthermore the Regulatory Authorities will also develop all island transmission loss adjustment factors (TLAFs) as well as transmission use of system (TUoS) charging policy in 2007.

SEM Information

The Regulatory Authorities established a joint website to support communication and transparency in the development of the SEM. All relevant documents and information can be found there at www.allislandproject.org.

SEM Go-Live

Although there is considerable work to be done to implement the SEM the Regulatory Authorities, and all stakeholders involved, remain focused on and committed to the successful delivery of the new market on 1 November 2007.
Energy Networks

Key Achievements in 2006
- Approval of Gate 2 policy for connection of over 1300MW of renewable generation
- Direction to EirGrid on connection of over 800MW of conventional generation and relationship to Gate 2 process
- Establishment of EirGrid as independent Transmission System Operator (TSO)
- Launch of competition process for East West Interconnector
- Commencement of five year revenue 2007 – 2012 review of Bord Gáis Networks
- Approval of new BGE connection policy extending gas networks to new towns
- Decision on extension of the natural gas network to towns in the west of Ireland
- Development of measures to manage impact in Ireland of major reforms to UK gas transmission system

Introduction

The Energy Networks Division is responsible for regulating the electricity and gas transmission and distribution networks and ensuring that these strategic national assets are maintained and developed economically and in the long term interests of the Irish consumer.

The Division is split into three teams: Electricity Transmission, Networks Commercial and Network Operations.

A key goal of the Division is to ensure equitable access for all generators, shippers and other customers to the networks. This amounts, in practice, to overseeing that the gas and electricity network operators discharge their functions in a fair, transparent, non-discriminatory and efficient manner. The Division also has key responsibilities in approving network investment programmes, monitoring their implementation, setting transmission and distribution tariffs, determining disputes and developing network policy on specific issues as and when these arise.

The following are the key work items which the Division was involved in, during 2006.

Electricity

Gate 2 Connections

Since April 2005 all connection applications from renewable generators are dealt with under a group processing regime. This is a far more practical and equitable way of dealing with the unprecedented volume of such applications than the previous individual processing regime.

The Commission published its decision on Gate 2 connections to the electricity transmission and distribution networks on 14 November 2006. This policy directs the transmission system operator [EirGrid] and the distribution system operator [ESB Networks] to offer connections to over 1,300 MW of renewable projects. Gate 2 covers 121 new renewable projects throughout the country, most of which are wind projects.

By the end of 2006 there was nearly 1,200 MW of renewable generation contracted to the electricity system. The Gate 2 Direction will increase the level of renewables on the system to over 2,500 MW by 2010, assuming all offers are taken up. This should enable Ireland to comfortably exceed its renewables target of 15% of consumption from renewable sources by 2010, as set out by the Government policy.
In tandem with this Direction on Gate 2 offers, the Commission also directed the system operators to reserve connection capacity for 860 MW of conventional generation capacity in the South West. This arose from connection applications from Bord Gáis Eireann (BGE) and from ESB Power Generation for two CCGT (Combined Cycle Gas Turbine) plants. The direction relating to the application from ESB Power Generation was conditional on undertakings from that company on an extensive asset strategy programme of plant closures and divestitures, as described in the section “Agreement to Reduce ESB’s Market Share in the Power Generation Sector”. This direction will mark a considerable step forward in the promotion of security of supply and promotion of competition in the generation and supply markets and was based on this wider public interest criterion.

EirGrid becomes Operational as Independent Transmission System Operator

In July 2006, EirGrid, the independent state owned company, finally took over the TSO (transmission system operator) function from ESB National Grid (ESB NG), a business division within ESB. The designation of EirGrid as Ireland’s fully independent TSO had been decided upon by Government back in 2000 but had been delayed due to a legal dispute with the Commission and to securing agreement on staff transfers. In June 2006 the Commission approved the Transfer Scheme between EirGrid and ESB. This was the last legal hurdle to EirGrid’s TSO licence becoming fully operational from 1 July.

The Commission was very happy to see this important milestone in Ireland’s energy liberalisation programme achieved and has been working well with EirGrid in advancing the interests of all electricity industry participants and end customers. EirGrid is expecting to move to a new premises in early 2008.

East West Interconnection

For a number of years the Commission has been actively promoting the development of an East West Interconnector between Ireland and Britain and has reported to Government on a number of alternative models of developing this project. In July 2006 the Government wrote to the Commission confirming its support for this project and requesting the Commission to arrange for the design of a competition for the design and construction of a 500 MW undersea interconnector to be in operation at the earliest possible date prior to 2012. Once constructed, the interconnector will be owned by EirGrid.

Since the Government decision, the Commission has worked closely with EirGrid on developing the necessary project structures and plans to ensure that the interconnector is constructed in line with Government requirements. The main focus in 2006 – and for the first half of 2007 – has been on finalising the preferred cable route, connection points on both systems, location of converter stations, drawing up technical specifications and developing the competition framework to select the preferred developer.

Good progress has been made on the project to date. The relevant legislation to support the project has been put in place. The Commission expect that by mid 2007 the preferred route will be selected and by the end of 2007 or early 2008 the competition to select the constructor will be held.

Transmission Use-of-System Charges and Distribution Use-of-System Charges

The key features of the Commission’s decision on this piece of work for 2007 (determination published in October 2006) are as follows:

- The allowed revenues for transmission cover the costs of an efficient and modern transmission service, including the funding of a substantial network construction and refurbishment programme.
The approved TUoS charges for 2006 represent a 20.3 percent increase in the average unit tariff compared with 2005. It should also be recalled that the average 2006 tariff was, itself, 6% lower than the corresponding 2005 tariff.

The main reasons for the increase relate to the costs of continued investments in the transmission system and to the increased constraint compensation payments to generators in meeting system demand which is linked in turn to changes in fuel prices.

The Distribution Use of System (DUoS) tariffs for 2007 are 8.5% higher in nominal terms for 2007 than in 2006.

Distribution revenues cover the cost of distributing electricity through the distribution network to end user sites and are paid by electricity suppliers to the DSO.

One of the key drivers of the increase in the DUoS tariff was the exceptional level of new connections to the distribution network in 2006 where connecting customers only pay 50% of the cost of the new connection. In 2006 there were over 100,000 new connections to the network.

Micro Generation

Microgeneration refers to the installation of small scale electricity generating units such as wind turbines by customers typically for the purpose of reducing their electricity import volume and thereby reducing costs. In October 2006 the Commission issued a paper titled “Arrangements for Micro Generation” (CER/06/190). This paper sets out the framework for the installation of micro generation and seeks comments on arrangements for metering and payment of exported energy. In light of the large number of responses received on this topic the Commission will be responding to the issues raised and setting out the next steps in Quarter 1 2007.

Gas


The Commission commenced a detailed five year revenue review of Bord Gáis Eireann’s network (BGN) activities during 2006. This includes a historic review of network operations, operational costs and analysis of their investment proposals for the next five years. This review is due for completion in September 2007 at which point the CER will have a clear plan for developing the gas network until 2012.

During the review process, the CER will be examining the capital and operational expenditure of BGN over the 5 year period. The main areas of capital expenditure are the extension of the gas network to new areas and the upgrading and maintenance of the existing network. The main areas of operational expenditure are gas shrinkage costs, meter reading costs, rates, network support costs and also network maintenance. The CER will also be reviewing the appropriate rate of return allowed to BGN over the five year period.

This is a very important project for the whole gas industry as it will help to determine the level of investment necessary to maintain a gas network to support a modern, dynamic and growing economy over the next 5 years.

Figure 5.0 below indicates gas demand in Ireland since 1997 as outlined in the Gas Capacity Statement 2006. Ensuring the gas network is adequately maintained to meet gas demand is one of the key objectives of the revenue review and the Commission and Bord Gáis Networks will build upon historical network data to make forecasts of projected demand for the coming five year.
Gas Transmission and Distribution Revenues & Tariffs for 2006/07

As in electricity, gas network tariffs are components of the end user tariff that makes up the final cost of gas to customers. They are paid to Bord Gáis Networks (BGN) to cover the costs of transmitting and distributing gas through the network to end users sites. The table indicates the revenues allowed to BGN for 2007:

**TABLE 4.0: BORD GÁIS NETWORKS ALLOWED REVENUES 2006/07**

<table>
<thead>
<tr>
<th></th>
<th>Transmission – Onshore System</th>
<th>Transmission – Interconnectors</th>
<th>Transmission – Inch</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>BGN Allowed Revenue 2006/07</td>
<td>€126 million</td>
<td>€6 million</td>
<td>€3.4 million</td>
<td>€180 million</td>
</tr>
</tbody>
</table>

The transmission allowed revenues resulted in a real tariff decrease for typical Moffat and Inch shippers of 10.3% and 1.7% respectively in real terms compared to the 2005/06 tariffs. The main drivers of this decrease were savings on local authority rates and a reduced under-recovery for 2005/06 (€5m against €15m forecast).
However the capacity charges element of the distribution tariff increased by 5.2% over 2005/06 while the commodity charge element was 3.8% higher, inclusive of inflation, in nominal terms for 2006/07. The main drivers of this increase were the increase in gas shrinkage costs, a higher level of customer connections than forecast, higher local authority rates than expected and higher costs associated with safety advertising and other safety related expenditure.

Gas Connection Policy

In April 2006 the Commission directed Bord Gáis Networks to implement a new connection policy (CER/06/033). This set out detailed criteria for the evaluation of network extensions in order to achieve a balance between growing the network on the one hand and competitiveness of gas prices on the other.

The new policy replaced the connection policies that had been in place since 2003. For all customers the recovery of full connection costs is now split between upfront charges, supplemental charges based on an economic test, and tariffs.

The new policy has a number of benefits:

- It makes connection charges easier for customers to understand and estimate;
- It also ensures that there is a clear and transparent policy in a number of areas where the previous policy was silent (e.g. non-gas estates);
- It encourages the connection of new loads to the network where such connection is economically efficient in the long term.

The initial assessment of the impact of the revised policy on network tariffs indicates that, while there was a small increase in tariff levels in the short term as a result of increased connection activity, these should be offset in the medium to long term by greater future load growth.

Extension of Gas Network

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 after 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 the CER in April 2006 (see above). This evaluation was carried out on a cost–benefit basis focusing on the costs of building out the new network versus the revenue earned from new customers connecting in these towns. 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.

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

Gas Market Advisory Retail Group (GMARG)

The Gas Market Advisory Retail Group (GMARG) is an autonomous industry body formed to provide guidance to, and consistency between, the development and the implementation phases of full market opening in the gas retail market. Some of the key areas of work which the GMARG was involved in throughout 2006 are listed below:
<table>
<thead>
<tr>
<th>GMARG Work Area</th>
<th>Description of Progress in 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-payment Meters</td>
<td>A decision paper on Pre-payment Metering (CER/06/157) was published by CER in August 2006. This provided for pre-payment meters to be available nationally to all customers in the open market. Currently under discussion at GMARG is defining the requirements for the pre-payment meters and the systems to support a multi-shipper environment. The go-live date for pre-payment metering is March 2008.</td>
</tr>
</tbody>
</table>
| Gas MaP Project       | The Gas MaP Project was initiated in 2006 through the GMARG to develop a Market Messaging IT system for the gas market. There are four stages of the project;  
- definition of market processes and technological evaluation,  
- detailed system design,  
- system construction, and,  
- system transition.  

The first stage was completed in September 2006 and the second stage is currently in progress. The Gas MaP project is due to be completed by the second quarter of 2008. |
| Full Market Opening   | The GMARG continued throughout 2006 to advance on putting in place the necessary structures to support full market opening in the Gas Market. Full market opening is due to take place not later than 1 July 2007 and will involve the extension of gas market opening to include the residential sector. |

**Gas Capacity Statement**

In July 2006 the Commission published its fourth annual statutory Gas Capacity Statement (GCS). This Statement provides a forecast of network capacity, flows and customer demand on Ireland’s natural gas system over the next eight years, and constitutes the best estimate of the adequacy of Irish transmission capacity for a range of possible scenarios.

Figures 6.0 and 7.0 respectively outline projections for gas demand growth in both the residential and industrial sector as far as 2013. These charts are taken from the 2006 Gas Capacity Statement and projections made in 2005 and 2006 under the “Central Demand Scenario” are analysed.
The results of the 2006 Statement have again proven the system to be sufficiently robust to cope with most demand scenarios. However, further delays or difficulties with indigenous supply sources, including Corrib, may lead to the system in Scotland being tight for a period of time. The following are some of the measures being considered to address these potential constraints:

- The development of commercial incentives to reduce peak day demand;
- Development of additional infrastructure in Scotland;
- Performance testing of existing Scottish infrastructure by Bord Gáis Éireann (BGE).
The report also concluded that the Irish market is becoming increasingly affected by changes to the gas markets outside of Ireland and that close attention needs to be paid to the UK gas transmission reforms which may have an impact on Irish security of supply.

**Impact of UK Gas Transmission Exit Reforms**

In June 2005, the British Regulator, Ofgem, announced that it planned to introduce reforms to the National Transmission System (NTS) Exit Regime by September 2007 for capacity bookings in October 2010. These reforms are likely to have a significant impact on the operations of shippers and transporters in Ireland, Northern Ireland and the Isle of Man.

Throughout 2006, the CER held industry forums and consulted with market participants in an attempt to identify all of the risks associated with these reforms and to develop the most appropriate solution to address the main concerns. The CER issued a consultation paper (CER/06/222) outlining a number of possible alternatives in October 2006. Following responses to this consultation, a CER decision paper was published which outlined the CER’s proposal to develop and establish a Single Party at Moffat to transact on the UK transmission network. This body would be responsible for booking network exit capacity at Moffat on behalf of shippers and transporters downstream of Moffat.

**Network Access**

Regulation 1775/2005/EC provides for a range of conditions for access to natural gas transmission networks. These include third party access services, congestion management, transparency of system information, balancing and capacity trading. The objective of Regulation EC1775 is to “tackle remaining barriers to the completion of the internal market in particular regarding the trade of gas”.

In accordance with the Regulation’s specifications on Third Party Access services, Bord Gáis Networks (BGN), Industry and the CER have progressed principles and business rules to implement a monthly and daily firm capacity product at all entry points and a number of exit points on the gas transmission network. These products will be available to network users from 1 June 2007 and will provide flexibility to the capacity portfolios of network users allowing them to vary their capacity bookings within a year according to demand and/or the accumulation of new customers.

**South North Pipeline**

The South-North Transmission Pipeline from Gormanstown, Co. Meath to Ballyclare, Co. Antrim was commissioned in October 2006. The primary purpose of this pipeline is to transport gas through the two Irish owned sub-sea interconnectors to Gormanstown and from there to customers in Northern Ireland. It creates an all island gas transmission network, connecting the gas grids of Ireland and Northern Ireland for the first time.

Following consultation, the CER issued a licence to BGE(UK) for the operation and maintenance of the Transmission Pipeline in the Republic of Ireland, published in February 2007. This licence outlines a number of conditions obliging BGE(UK) to:

- ensure the efficient and safe operation of the pipeline within the Republic of Ireland
- comply with any instructions from the Network Emergency Manager in the Republic of Ireland
- co-operate and interact with other natural gas undertakings
- operate a negotiated access regime in the event of access being sought by third parties
Gas Storage

On 1 June 2006 Marathon Oil Ireland Ltd brought Ireland’s first gas storage facility into operation. Marathon redeveloped the Southwest Kinsale reservoir to accommodate the storage of excess summertime production from the Kinsale & Ballycotton reservoirs. Since then, they have used the full storage capability of the reservoir and the installed facilities to re-profile quantities of their own production from summer to winter. However, they no longer require the full storage capability for this purpose and have arranged the facility to make the full capability available to third parties.

The facility is connected to the transportation network at Inch Co Cork and allows gas to flow both into and out of the facility. Gas will be injected into the storage facility during the summer months when there is a reduction in demand levels for gas. Gas shippers will then be permitted to take gas out of the storage facility during the winter months under the arrangements outlined in the Code of Operations and in a manner similar to all other entry points on the transportation system.
Airtricity 48MW Wind Farm, Bindoo, Co. Cavan.
**Environment, Retail and Consumer Affairs (ERCA)**

**Key Achievements in 2006**
- ESB PES revenue review and tariffs for 2007
- Bord Gáis Energy Supply (BGS) tariffs for 2007 and development of the Regulated Tariff Formula (RTF) for 2007
- Establishment of new customer care structures and policy
- Continued governance of the liberalised retail electricity market and preparation for required changes to messaging standards for SEM
- Preparation of ESB CS for SEM market
- Generation licensing
- Fuel disclosure by suppliers

As part of the Commission’s widened remit in relation to consumer protection the Commission established a Customer Care team (CCT) in 2006 which forms part of the Environment, Retail and Consumer Affairs division. The activities of this new team include dealing with queries and complaints from customers of electricity and gas suppliers (also certain complaints against the network operators) as well as monitoring the performance of all gas and electricity suppliers in the market. The customer care team will also become the CER’s centre for the development of consumer policy and the promotion of consumer protection.

The following sections outline the key work items which the ERCA division was responsible for and their outcome during 2006:

**Introduction**

The Environment, Retail and Consumer Affairs (ERCA) division is responsible for regulation of the supply markets (retail markets) for electricity and gas in Ireland. The division oversees the development of consumer policy as it applies to gas and electricity customers and ensures that the correct market structures to support competition in the retail markets are in place. The Commission’s policies for renewables and environmental topics are also developed by the ERCA division.

The division is responsible for analysing ESB Customer Services (ESB CS) proposals to change electricity tariff structures and levels as well as regulating the revenues allowed annually to ESB CS. The ERCA division also reviews Bord Gáis Energy Supply (BGS) tariffs for the domestic market as well as the Regulated Tariff Formula (RTF) for industrial and commercial customers.

**Electricity Supply**

**2007 ESB PES Revenue Review**

In 2006, the Commission undertook a review of ESB Customer Supply’s (ESBCS) submission on costs to supply electricity in 2007, the second year of the five-year price control. The Commission approved costs of €133.5m (CER/06/205) in line with the control formula for the period 2006-2010.

The ESB CS revenue control also incorporates incentives to improve customer service performance levels. In 2006 a ‘Quality of Service’ incentive mechanism was applied to the ESB’s National Customer Contact Centre (‘NCCC’) (CER/06/107). The CER applied four separate incentives on ESB:
- Speed of telephone response
- Call abandonment rate
- Customer call-back survey results
- Mystery caller survey results
Specific targets were set against each of these areas and a financial penalty or reward would be applied if ESB’s performance is above or below the targets set. Initial results for 2006 show a marked improvement in performance levels as compared to previous years, with ESB achieving a number of the performance targets set by the Commission.

Electricity Tariffs 2007

ESBCS offers tariffs to customers who do not purchase electricity from other suppliers. These tariffs reflect the costs incurred by ESB CS of supplying electricity to final customers. This includes the cost of procuring energy in the wholesale generation market, transmitting and distributing electricity through the networks and ESBCS’s own supply business unit costs. The Commission is responsible each year for analysing ESB’s costs and proposed tariffs to recover these costs. The result of the Commission’s tariff review for 2007 was a 12.6% increase in the average price of electricity to end users for 2007 (CER/06/252). This increase was largely driven by an increase in the generation component of the tariff due primarily to high international fuel prices during 2005 and 2006.

The Commission had initially approved a higher tariff increase of an average of 19.7%. However this decision coincided with the start of a reduction in international fuel prices. Following a further review (carried out in November 2006) of ESB’s projected costs for 2007, the Commission was in a position to reduce the price increase to 12.6%.

In addition to approving the level of the tariffs for 2007, the Commission implemented a ‘Seasonal Time of Day’ tariff structure for large energy user customers to better reflect the costs of purchasing electricity at different times of the day and year.

When announcing the proposed tariffs for 2007 in September 2006, the Commission decided to end tariff regulation for large energy users. The Commission stated in its decision that it was of the view that there was a sufficient level of generation capacity at the upper end of the market to allow all customers to receive a competitive supply offer from an Independent Supplier.

Fuel Price Variation and Tariffs for Large Energy Users

In summer 2006 the Commission consulted on the possibility of introducing a fuel price variation mechanism into electricity tariffs for 2007 (CER/06/144). This would allow an element of the tariff to move in line with trends in international fuel prices, in particular wholesale gas. However customers were not in favour of this type of mechanism at that time.

Since then and as international fuel prices have started to fall, customers have asked the Commission to re-assess the possibility of

### Table 6.0: ESBCS Tariff 2007 Average Increase by Tariff Category

<table>
<thead>
<tr>
<th>ESB PES Tariff Categories</th>
<th>Average PES Tariff Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>12.6%</td>
</tr>
<tr>
<td>Non-Domestic General Purpose</td>
<td>12.5%</td>
</tr>
<tr>
<td>Low Voltage Maximum Demand</td>
<td>12.6%</td>
</tr>
<tr>
<td>10-20kV STOD</td>
<td>12.5%</td>
</tr>
<tr>
<td>38kV STOD</td>
<td>13%</td>
</tr>
<tr>
<td>110kV STOD</td>
<td>12.5%</td>
</tr>
<tr>
<td>Public Lighting</td>
<td>20.2%</td>
</tr>
<tr>
<td><strong>Overall Average</strong></td>
<td><strong>12.6%</strong></td>
</tr>
</tbody>
</table>
developing a fuel price variation mechanism in tariffs. The Commission intends to carry out a further consultation on this issue in 2007.

Retail Market Governance

The retail electricity market industry governance group (IGG) is the main group for the coordination and control of the retail market design. This group is chaired by the Commission and ensures that the relevant systems and processes are in place to support the continued development of the retail market. Throughout 2006, one of the main focuses of the IGG group was to ensure that the necessary changes to the retail market messages (the IT infrastructure that supports the Change of Supplier – CoS – Process) to support the establishment of the SEM in 2007, were identified and steps taken to make design changes.

Retail Market Regulation in the SEM

While the Regulatory Authorities (CER and NIAER) have put in place a regulatory strategy to deal with market power in the SEM (see Table 3.0), it became clear that further regulatory measures may be required to ensure the fair and proper functioning of both the wholesale and retail electricity markets following implementation of SEM. These retail market measures will aim to provide customers with the most economic priced electricity. To this end the Regulatory Authorities commenced work on the development and implementation of a programme of work for the regulation of both ESB and NIE in the SEM. The scope of this work includes the following:

- The licensing of both Public Electricity Supplier (PES) businesses, north and south of the border;
- The regulation of their tariffs and allowed revenues in the interests of consumers;
- The development and implementation of an economic purchasing obligation for ESBCS;
- The calculation of the PSO benchmark price;
- The offering of non-directed contracts by the incumbent generators;
- The development of a Risk Management Platform.

Gas Supply

Review of Competition in Gas Supply

In March 2006, the Commission completed the first phase of its review of competition in the eligible gas market. It published a consultation document (CER/06/070) setting out preliminary findings, and describing various proposals to benefit customers through the promotion of greater customer choice, competitive prices and high quality services. The second phase of the review (largely completed by December 2006) was a detailed evaluation of all proposals identified, taking due account of the responses received to the previous consultation and of relevant international experience in gas market liberalisation.

Prior to the final implementation phase, the Commission will be providing interested parties with a further opportunity to comment on specific proposals which, in the Commission’s view, are capable of delivering net customer benefits. These include initiatives to address the economies of scale in the sourcing of wholesale gas, to improve the cost reflectivity of Bord Gáis Energy Supply’s tariffs for Non Daily Metered (NDM) gas customers, and to provide information which would facilitate comparison of competitive offerings. The Commission will publish a further consultation on this topic in early 2007.

Gas Supply Tariffs

In September 2006, the Commission approved an increase of 33.8% for Bord Gáis Energy Supply (BGS) in respect of tariffs to residential customers and industrial or commercial sites consuming less than 5.3GWh per annum. This tariff increase came into effect on 1 October 2006. This was lower than the figure of 38.34% requested by BGS, reflecting the Commission’s decision to disallow certain claimed revenues in respect of prior year adjustments.
After 1 October, there was a sharp reduction in UK wholesale gas prices and BGS was able to secure additional amounts of gas at prices lower than originally anticipated. Based on a further submission from BGS, the Commission judged it appropriate instead to direct BGS to implement a 10% downward adjustment to NDM tariffs with effect from 1 February 2007.

Customer Protection and Complaints Management

Customer Protection

On 22 September 2006, the Commission published a decision on Codes of Practice for Customer Billing for natural gas and electricity suppliers (CER/06/185). This decision followed an extensive consultation with gas and electricity suppliers and set down guidelines for suppliers with regard to billing of customers. The Commission outlined five key guidelines which suppliers had to comply with; a number of different provisions were set out under each guideline. The five key guidelines relate to the following:

- Billing timeframes, cycles and options
- Payment options for customers
- Tariffs and prices
- Information on the bill
- Complaints resolution and compensation

The Commission required all suppliers to submit a copy of the content of their bill annually or prior to making any significant changes for the approval of the Commission. Suppliers will also submit an annual report to the Commission on the number, nature and resolution of billing complaints.

Complaints Coordination Service

Throughout 2006, the Environment, Retail and Consumer Affairs Division of the Commission, continued to act as the Commissions interface with the public. In total during this period, 891 consumer complaints against companies operating in the gas and electricity sectors were recorded, a 53% increase on the 2005 figures. Of this total, 397 cases were recorded in quarter 4 of 2006; representing 45% of the total queries for the year and a 253% increase on the same period in the previous year. Complaints relating to the electricity sector amounted to 395 or 44% of the total. The balance of 496 cases (56%) related to natural gas. The chart below indicates the case volumes handled by the Commission from October 2005 to end 2006.
These charts indicate that the highest volumes of complaints were against ESB Customer Supply and Bord Gáis Energy Networks; this can primarily be explained by the fact that the vast majority of domestic electricity customers are supplied by ESBCS while in 2006, all domestic gas customers were supplied by BGS.

Throughout the year the Commission has taken the approach of facilitating the amicable resolution of complaints between suppliers and customers and while it can issue determinations and directions in writing, with respect to the complaints received in 2006, this has not been required.

**Establishment of Customer Care Team**

On 1 October 2006, in fulfilment of it’s expanded responsibilities in the area of consumer protection, assigned under Statutory Instrument (SI) 452 of 2004 (for Natural Gas) and SI 60 of 2005 (for Electricity), the Commission commenced the establishment of a dedicated consumer care function, with a view to a full launch of the service in the first half of 2007. Under the legislation, the Commission has been assigned responsibility for resolving disputes for consumers in the electricity and gas retail markets and for ensuring a high standard of protection for final customers in their dealings with licensed suppliers. This team is dedicated to the management of complaints, queries and requests for information processes, for domestic and small to medium sized enterprise consumers, and where there are unresolved disputes between such consumers and their energy supplier, making decisions that are binding on the licence holders. The consumer care team, in addition to the complaint management functions, will assume responsibility for:

- Monitoring supplier’s and network operator’s compliance to the various customer charters;
- Providing feedback on policy changes that may be considered from a consumer perspective based on the queries and complaints received;
- Managing consumer related education activities including the development and maintenance of the consumer elements of the CER web-site, and the publishing of various consumer related literature relating to the CER;
- Managing consumer related internal and external reporting arrangements;
- Establish and maintain service levels and the customer charter of the team.
Renewables

Generation Licensing

The Commission grants licences to generate electricity and authorisations to construct or reconstruct generating stations under Sections 14 and 16 of the Electricity Regulation Act, 1999. Applications for an Authorisation to Construct or Reconstruct a generating station are assessed in accordance with the criteria specified in the Electricity Regulation Act, 1999 (Criteria for Determination of Authorisations) Order, 1999 (S.I. No. 309 of 1999). Analysis of licensing work carried out in 2006 shows that all generating stations which were authorised and licensed in the year 2006 used a renewable energy source, i.e. wind, hydro, solar and CHP. A total of 80.71 MW of installed capacity was licensed to generate electricity as indicated in Figure 6.0, with 108.25 MW authorised for construction or reconstruction. The Commission licensed 4 wind generators, 1 solar PV generator, 1 hydro generator and 1 CHP generator in 2006.

Renewable Generation

In carrying out its functions, the Commission has a duty to have regard to the need to promote the use of renewable, sustainable or alternative forms of energy. The Government has set a target of 15% of electricity consumption from renewable sources by 2010 and recent figures indicate that Ireland is on track to meet this target. In 2006 an additional 213 MW of wind generation was added to the electricity system, meaning that by the end of 2006, there was 744 MW of wind on the system. Figure 11.0 below shows the growth in wind connected to the national grid since 2000. This growth has contributed to the overall installed renewable generation capacity, which reached 1,161 MW by end of 2006.

![Figure 11.0: GROWTH IN INSTALLED WIND CAPACITY (2000-2006)](image)

Fuel Disclosure for 2005

Under Regulation 25 of S.I. No. 60 of 2005, the Commission is required to ensure that all suppliers provide reliable information on all bills and promotional materials sent to customers regarding the contribution of each energy source to the overall fuel mix of the supplier concerned and the associated environmental impacts over the preceding year. Early in 2006, the methodology to be utilised to calculate the fuel mix of all suppliers in the market was decided by the Commission (CER/06/117).

Table 7.0 outlines each of the main electricity supplier’s fuel mix figures listed by fuel type for 2005. Ireland’s overall average fuel mix figures for 2005 are also listed.
### Table 7.0: Electricity Supplier Fuel Mix by Fuel Type for 2005

<table>
<thead>
<tr>
<th>Supplier</th>
<th>CHP</th>
<th>Coal</th>
<th>Oil</th>
<th>Gas</th>
<th>Peat</th>
<th>Renewables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airtricity</td>
<td>0%</td>
<td>7%</td>
<td>4%</td>
<td>9%</td>
<td>2%</td>
<td>78%</td>
</tr>
<tr>
<td>Bord Gais Energy Supply</td>
<td>1%</td>
<td>6%</td>
<td>3%</td>
<td>88%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>CH Power</td>
<td>10%</td>
<td>18%</td>
<td>10%</td>
<td>20%</td>
<td>4%</td>
<td>38%</td>
</tr>
<tr>
<td>Energia</td>
<td>2%</td>
<td>14%</td>
<td>6%</td>
<td>74%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>ESB Customer Supply</td>
<td>1%</td>
<td>32%</td>
<td>17%</td>
<td>30%</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>ESB Independent Energy</td>
<td>0%</td>
<td>10%</td>
<td>5%</td>
<td>81%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Overall</td>
<td>1%</td>
<td>24%</td>
<td>12%</td>
<td>46%</td>
<td>8%</td>
<td>9%</td>
</tr>
</tbody>
</table>
Gas and Electricity Safety

Key Achievements in 2006

- Formal establishment of electricity and gas safety team
- Initial development of CER gas and electricity safety functions in anticipation of new responsibilities in this area to be provided under Energy (Miscellaneous Provisions) Act 2006

Introduction

The electricity and gas safety team was set up by the Commission in 2006. The team is responsible for the regulatory oversight of safety rules for particular areas of the natural gas and electricity sectors in Ireland, as prescribed primarily under the Energy (Miscellaneous Provisions) Act 2006.

Background

The initial work of the electricity and gas safety team involved continuing existing work in this area and liaising with the Department of Communication, Marine and Natural Resources (DCMNR) on the development of the safety provisions of the Energy (Miscellaneous Provisions) Act.

The Act was passed by both houses of the Oireachtas and signed by the President on 24 December 2006. It expands the functions of the Commission to include the regulation of the activities of electrical contractors, gas installers and natural gas undertakings with respect to safety.

Legislation

In relation to electrical contracting industry, the Energy (Miscellaneous Provisions) Act 2006 requires the Commission to designate a body or bodies to act as an Electrical Safety Supervisory Body. Electrical contactors will be required to apply to be members of this body and will have to meet certain criteria as set by the Commission, in order to become Registered Electrical Contractors. This body will have the power to inspect and discipline members and will itself be subject to audit by the Commission to ensure that prescribed standards are being met.

Similarly, in relation to gas safety, the Commission will be required to designate a body to act as a Gas Safety Supervisory Body for natural gas installers. The Act also gives the Commission extensive responsibilities in relation to regulating and promoting natural gas safety, including the establishment of a natural gas safety framework for gas undertakings. The Commission is required under the Act to report annually to the Minister on the functioning of the framework.

In 2007 the focus of the safety team within the Commission will be the implementation of these key provisions.

Electricity Safety

The safety team’s work in the area of electricity safety focused on two main areas in 2006 – the reinvigoration and management of the voluntary regulatory regime in place for the electrical contracting industry and the development of a plan for the implementation of the Commission’s electrical safety responsibilities under the Act.

Ongoing Management of Voluntary Regulatory Regime

During 2006, the Commission re-established the Electrical Contractors’ Criteria Review Panel (ECCRP). This is an industry forum with
representation from the self-regulatory bodies for electrical contractors, ECSSA and RECI, the Electro-Technical Council of Ireland (ETCI) and ESB Networks. The work of the panel in 2006 culminated in the publication of a new version of the Criteria for Issue of a Regulatory Licence to an Electrical Contracting Licensed Regulatory Body, the ‘Criteria Document’, which outlines the roles and responsibilities of the different parties under the current regime.

Gas Safety

During 2006 the Commission continued work with the Gas Safety Committee to investigate gas safety incidents and to review industry safety statistics. The Commission was encouraged to note there were only five gas safety incidents in 2006 and none of these resulted in the death or serious injury of any person.

Plan for Implementation of New Responsibilities – Electricity and Gas

Alongside the work carried out in relation to the current regime, the Commission also embarked on the process of developing a plan for implementing its new legislative responsibilities in relation to electricity safety.

The first of the Commission’s key projects in this area is the publication of a ‘Vision Document’. This will outline the following:

- the high-level objectives of the new regulatory regime,
- the means by which these will be achieved and measured,
- the governance arrangements that will be put in place to ensure the effective operation of the new regime.

It is planned to publish this document for public consultation in the first half of 2007.

Alongside the work carried out in relation to the Gas Safety Committee, the Commission also embarked on the process of developing a plan for implementing its new legislative responsibilities in relation to gas safety.
Operations Division

Key Achievements for 2006

- Completion of CER Office Move Project
- Design and implementation of CER HR Strategy
- Establishment of Business Information Centre (BIC)

Introduction

The Operations Division within the CER is primarily an internal support division to the four policy and regulatory divisions. The Operations Division is made up of the HR Department, the Finance Department and the recently established Business Information Centre (BIC). The following are the key highlights for 2006;

CER Office Move

The Commission moved offices in late 2006. The requirement to move to more spacious and modern offices is an indication of the growth of the CER in the past two to three years, as the functions and responsibilities of the Commission have been expanded through various legislation. The CER is now located at the following address:

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

Telephone and fax numbers and email addresses have not changed.

The office move was carried out successfully over the Christmas 2006 period in order to minimise the inconvenience that it may have caused to the CER’s stakeholders.

CER Human Resources Strategy

The Commission approved the implementation of a CER HR strategy to commence in 2006. This strategy is designed to develop the staff resources of the CER in order to assist the Commission in the discharge of its regulatory duties, as well as improve organisational efficiency and quality of service to the energy sector in Ireland. The CER HR strategy focuses on developing regulatory and management skills for CER staff, improving communications and performance management.

Business Information Centre

The CER established a Business Information Centre (BIC) in 2006. The BIC will assist the Commission in improving its efficiency and quality of service to stakeholders. Information management structures within the CER will be strengthened; this will also improve the speed and quality of information which the CER can provide externally. Furthermore the BIC has been set up as the CER’s press office following a significant increase in queries and calls from the media in recent years.

In addition to this improved service to external stakeholders the business information centre will also assist the Commission throughout its internal planning process. Improved planning structures will help the Commission in achieving its regulatory objectives with improving efficiency.

The BIC will also coordinate the CER’s interactions with European bodies such as the CEER (Council of European Energy Regulators) and ERGEG (European Regulators Group for Electricity and Gas). These groups aim to develop common policy and strategy amongst all of the European energy regulators.
Appendices

Appendix 1: CER Key Deliverables for 2007

On 16 February 2007, the CER published its ten key tasks for progressing in 2007. These are key strategic objectives for the development of liberalised electricity and gas markets in Ireland. The CER’s ten key tasks for 2007 are as follows:

- Implement ESB Power Generation Asset Strategy Agreement
- Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) Plans
- Complete Bord Gáis Networks and Supply 5-year revenue reviews
- Implement Customer Care Plan
- Arrange for the design and launch of a competition for the East-West Interconnector
- Review and approve electricity and gas prices for 2008
- Implement Gate 2 policy and consideration will be given to the next steps
- Manage impact in Ireland of current reforms in UK gas transmission offtake arrangements
- Develop structures for implementing our safety responsibilities
- Implement HR Strategy and the development of the Business Information Centre (BIC)

The following table provides an outline of the key work tasks and delivery dates for each Division of the CER for 2007.

<table>
<thead>
<tr>
<th>TABLE 8.0: KEY DELIVERABLES BY DIVISION FOR 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Generation and Present Wholesale Markets Team</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>SEM Market Power Mitigation Implementation</td>
</tr>
<tr>
<td>SEM Market Modelling</td>
</tr>
<tr>
<td>ESB PG Regulation in the SEM</td>
</tr>
<tr>
<td>ESB PG and Generation Monitoring</td>
</tr>
<tr>
<td>Generation Licences in the SEM</td>
</tr>
</tbody>
</table>
### All Island Markets Division

<table>
<thead>
<tr>
<th>Task</th>
<th>Start Date in 2007</th>
<th>Finish Date in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>SEM Legislation and Joint Regulatory Arrangements</td>
<td>January 2007</td>
<td>November 2007</td>
</tr>
<tr>
<td>SEM Licensing</td>
<td>January 2007</td>
<td>November 2007</td>
</tr>
<tr>
<td>Capacity Payment Mechanism Design</td>
<td>January 2007</td>
<td>November 2007</td>
</tr>
<tr>
<td>SIMDRACs Plan (Metering and Data)</td>
<td>January 2007</td>
<td>November 2007</td>
</tr>
</tbody>
</table>

### Energy Networks Division

<table>
<thead>
<tr>
<th>Task</th>
<th>Start Date in 2007</th>
<th>Finish Date in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>East – West Interconnector Project</td>
<td>January 2007</td>
<td>December 2007</td>
</tr>
<tr>
<td>Electricity Connection Issues including Gate 2 Implementation</td>
<td>January 2007</td>
<td>December 2007</td>
</tr>
<tr>
<td>SEM Networks Issues (including transmission harmonisation)</td>
<td>January 2007</td>
<td>November 2007</td>
</tr>
<tr>
<td>Annual Cycle of Gas and Electricity Networks deliverables (tariffs, loss factors, forecasts)</td>
<td>January 2007</td>
<td>December 2007</td>
</tr>
<tr>
<td>Licence Monitoring and Compliance</td>
<td>January 2007</td>
<td>December 2007</td>
</tr>
<tr>
<td>CER Input to European Policy through CEER and ERGEG</td>
<td>January 2007</td>
<td>December 2007</td>
</tr>
<tr>
<td>Network Disputes</td>
<td>May 2007</td>
<td>December 2007</td>
</tr>
</tbody>
</table>
### Environment, Retail and Consumer Affairs Division

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Start Date in 2007</th>
<th>Finish Date in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bord Gáis Supply five year revenue review</td>
<td>January 2007</td>
<td>August 2007</td>
</tr>
<tr>
<td>Competition in Retail Gas Market Project</td>
<td>January 2007</td>
<td>November 2007</td>
</tr>
<tr>
<td>Retail electricity market and transition to SEM</td>
<td>January 2007</td>
<td>November 2007</td>
</tr>
<tr>
<td>Smart Metering and Demand Side Management</td>
<td>January 2007</td>
<td>April 2007</td>
</tr>
<tr>
<td>Treatment of Renewables in the SEM</td>
<td>January 2007</td>
<td>September 2007</td>
</tr>
<tr>
<td>Fuel Mix Disclosure in the SEM</td>
<td>January 2007</td>
<td>June 2007</td>
</tr>
<tr>
<td>Micro-generation</td>
<td>January 2007</td>
<td>June 2007</td>
</tr>
<tr>
<td>Annual PSO Audit</td>
<td>March 2007</td>
<td>August 2007</td>
</tr>
</tbody>
</table>

### Electricity and Gas Safety Team

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Start Date in 2007</th>
<th>Finish Date in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Criteria for Electrical Contracting Safety Supervisory Bodies</td>
<td>January 2007</td>
<td>June 2007</td>
</tr>
<tr>
<td>Designation of Electrical Contracting Safety Supervisory Bodies</td>
<td>January 2007</td>
<td>November 2007</td>
</tr>
<tr>
<td>Gas Installer Regulation Programme</td>
<td>February 2007</td>
<td>October 2007</td>
</tr>
</tbody>
</table>
Appendix 2: CER Organisational Structure 2007
# FINANCIAL STATEMENTS

For the year ended 31 December 2006

**Contents**

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report of the Commission</td>
<td>55</td>
</tr>
<tr>
<td>Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas</td>
<td>56</td>
</tr>
<tr>
<td>Statement of Members’ Responsibilities</td>
<td>58</td>
</tr>
<tr>
<td>Statement on Internal Financial Control</td>
<td>59</td>
</tr>
<tr>
<td>Statement of Accounting Policies</td>
<td>60</td>
</tr>
<tr>
<td>Income and Expenditure Account</td>
<td>62</td>
</tr>
<tr>
<td>Statement of Total Recognised Gains and Losses</td>
<td>62</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>63</td>
</tr>
<tr>
<td>Cashflow Statement</td>
<td>64</td>
</tr>
<tr>
<td>Notes to the Financial Statements</td>
<td>65</td>
</tr>
</tbody>
</table>
REPORT OF THE COMMISSION
FOR THE YEAR ENDED 31 DECEMBER 2006

I have pleasure in presenting the audited financial statements of the Commission for Energy Regulation for the year ended 31 December 2006.

Financial Year
The accounting period consists of twelve months to 31 December 2006.

Principal Activities
The European Electricity Directive was implemented by Ireland with the passing of the Electricity Regulation Act, 1999, which established the Commission for Electricity Regulation (CER) on 14 July 1999. This legislation and the signing of Statutory Instrument 445 of 2000 sets out the powers and duties of the CER and provides the framework for the introduction of competition in the generation and supply of electricity in Ireland. The Gas (Interim) (Regulation) Act 2002, established the CER as the Irish natural gas regulator under the name of the Commission for Energy Regulation. It gave the CER the necessary powers to licence and regulate the transmission, distribution, storage and supply of natural gas and issue orders in relation to the supply, transmission, distribution and sale of gas. The Commission is funded by levy and licence income received from the relevant industry participants.

Results
Details of the financial results of the Commission for the year are set out in the Financial Statements and in the related notes.

Auditors and Accounts
Paragraph 25 of the Schedule to the Electricity Regulation Act, 1999 as amended by the Gas (Interim) (Regulation) Act 2002 requires the Commission to prepare financial statements in such form as may be approved by the Minister for Communications, Marine and Natural Resources with the concurrence of the Minister for Finance. The Commission shall submit accounts in respect of each year to the Comptroller and Auditor General. As soon as may be subsequent to the audit the Commission is required to present to the Minister for Communications, Marine and Natural Resources a copy of such accounts together with the audit report of the Comptroller and Auditor General.

Audit Committee
The Audit Committee members are Mr. Michael G. Totty (Chairperson), Dr. Paul McGowan and Mr. Maurice Carey (External). Its key functions are to advise on how the Commission is managing key financial and operational risks, to evaluate the effectiveness of internal controls, to appraise value for money issues and to monitor implementation of Commission decisions arising from Audit Committee recommendations.

Following a competitive tendering process in 2005, the Audit Committee appointed PricewaterhouseCoopers as Internal Auditors for a three-year period. During 2006 the Committee asked the Internal Auditors to focus on a review of the overall system of Internal Financial Controls in the CER, to comment on their effectiveness and to make recommendations on aspects which should be improved. A follow up review of an Internal Audit of the Procurement and Risk Management Processes which was carried out in 2005 was also undertaken during the year.

Tom Reeves
On behalf of the Commission
REPORT OF THE COMPTROLLER AND AUDITOR GENERAL
FOR PRESENTATION TO THE HOUSES OF THE OIREACHTAS

I have audited the financial statements of the Commission for Energy Regulation for the year ended 31 December 2006 under the Electricity Regulation Act, 1999 as amended by the Gas (Interim) (Regulation) Act, 2002.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the Statement of Accounting Policies, the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes.

Respective Responsibilities of the Commission and the Comptroller and Auditor General

The Commission is responsible for preparing the financial statements in the form and manner provided under the Electricity Regulation Act, 1999 as amended by the Gas (Interim) (Regulation) Act, 2002, and for ensuring the regularity of transactions. The Commission prepares the financial statements in accordance with Generally Accepted Accounting Practice in Ireland. The accounting responsibilities of the Members of the Commission are set out in the Statement of Members’ Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

I review whether the Statement on Internal Financial Control reflects the Commission’s compliance with the Code of Practice for the Governance of State Bodies and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider whether the Statement on Internal Financial Control covers all financial risk and controls, or to form an opinion on the effectiveness of the risk and control procedures.

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements.
REPORT OF THE COMPTROLLER AND AUDITOR GENERAL CONTINUED

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Commission’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Commission’s affairs at 31 December 2006 and of its income and expenditure for the year then ended.

In my opinion, proper books of account have been kept by the Commission. The Financial Statements are in agreement with the books of account.

Gerard Smyth
For and on behalf of
Comptroller and Auditor General
17 August 2007
STATEMENT OF MEMBERS’ RESPONSIBILITIES

Paragraph 25 of the Schedule to the Electricity Regulation Act, 1999 as amended by Section 22 of the Gas (Interim) (Regulation) Act, 2002 requires the Commission to prepare financial statements in such form as may be approved by the Minister for Communications, Marine and Natural Resources with the concurrence of the Minister for Finance and to submit them for audit to the Comptroller and Auditor General. In preparing these financial statements, the Commission is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis, unless that basis is inappropriate
- disclose and explain any material departures from applicable accounting standards.

The Commission is responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the Commission and which enable it to ensure that the financial statements comply with Section 22 of the Gas (Interim) (Regulation) Act, 2002. The Commission is also responsible for safeguarding its assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Tom Reeves
On behalf of the Commission
STATEMENT ON INTERNAL FINANCIAL CONTROL

On behalf of the Commission for Energy Regulation I acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period.

The Commission has taken steps to ensure an appropriate control environment is in place by:

- Clearly defining management responsibilities and powers
- Establishing formal procedures for monitoring the activities and safeguarding the assets of the organisation
- Developing a culture of accountability across all levels of the organisation.

The Commission has established processes to identify and evaluate business risks by:

- Identifying the nature, extent and financial implication of risks facing the body including the extent and categories which it regards as acceptable;
- Assessing the likelihood of identified risks occurring;
- Working closely with Government and various Agencies to ensure that there is a clear understanding of Commission’s goals and support for the Commission’s strategies to achieve those goals.

The system of internal financial control is based on a framework of regular management information, administration procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- A comprehensive budgeting system with an annual budget which is reviewed and agreed by the Members of the Commission;
- Regular reviews by the Commission of periodic and annual financial reports which indicate financial performance against forecasts;
- Setting targets to measure financial and other performance;
- Formal project management disciplines.

The Commission has an internal audit function, which operates in accordance with the Framework Codes of Best Practice set out in the Code of Practice on the Governance of State Bodies. The work of internal audit is informed by analysis of the risk to which the body is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Audit Committee and approved by the Commission. At least annually, the Internal Auditor provides the Commission with a report of internal audit activity. The report includes the Internal Auditor’s opinion on the adequacy and effectiveness of the system of internal financial control. The Commission’s monitoring and review of the effectiveness of the system of internal financial control is informed by the work of the internal auditor, the audit committee which oversees the work of the internal auditor, the executive managers within the Commission who have responsibility for the development and maintenance of the financial control framework, and comments made by the Comptroller and Auditor General in his management letter.

A review of the effectiveness of the system of internal financial controls was carried out in 2006.

On behalf of the Commission

Tom Reeves
Chairperson
STATEMENT OF ACCOUNTING POLICIES

1. BASIS OF ACCOUNTS
   The financial statements are prepared under the accruals method of accounting, except as indicated below, and in accordance with generally accepted accounting principles under the historical cost convention. Financial Reporting Standards recommended by the recognised accountancy bodies are adopted, as they become operative.

2. INCOME RECOGNITION
   Electricity and Gas levy income is brought to account over the period to which it relates.

   Licence income from authorisations to construct, generate and supply is brought to account in the year in which the licence is issued.

3. FIXED ASSETS AND DEPRECIATION
   Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated in order to write off fixed assets on a straight-line basis over their estimated useful lives at the following rates:

   - Fixtures and Fittings 15%
   - Office Equipment 15%
   - Computer Hardware 33\%\%\%\%
   - Computer Software 50%
   - Leasehold Improvement 4%

4. FOREIGN CURRENCIES
   Transactions denominated in foreign currencies relating to revenues and costs are translated into Euro at the rates of exchange ruling on the dates on which the transactions occurred.

   Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the rates of exchange at the Balance Sheet date.

5. SUPERANNUATION
   The Commission operates funded contributory defined benefit pension schemes under Paragraph 30 and 31 of the schedule to the Electricity Regulation Act, 1999. Pension scheme assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using the project unit method. An excess of scheme liabilities over scheme assets is presented on the Balance Sheet as a liability.

   The pension charge in the Income and Expenditure account comprises the current service cost plus the difference between the expected return on scheme assets and the interest cost of the scheme liabilities.

   Actuarial gains and losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised in the statement of total recognised gains and losses for the year in which they occur.
STATEMENT OF ACCOUNTING POLICIES CONTINUED

6. TAXATION

The Commission is not liable for Corporation Tax. Provision is made for taxation on deposit interest received. Income raised by the Commission is not subject to VAT.

7. CAPITAL ACCOUNT

The capital account represents the unamortised value of income used for capital purposes.

8. ALLOCATION OF COSTS

In the discharge of the Commission's functions under section 22 of the Gas (Interim) (Regulation) Act 2002 the financial statements identify all elements of cost and revenue separately in regard to the gas and electricity sectors.

In drawing up the separate accounts of the Commission, a set of accounting procedures for the allocation of assets, liabilities, income and expenditure are adhered to:

Revenues, expenses and capital expenditure directly incurred by each sector are recorded in the separate accounts of the electricity and gas sectors. Shared costs are allocated to each sector in proportion to the staff numbers engaged in each sector.
# INCOME AND EXPENDITURE ACCOUNT

## FOR THE YEAR ENDED 31 DECEMBER 2006

<table>
<thead>
<tr>
<th>Notes</th>
<th>2006</th>
<th>2006</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gas</td>
<td>Electricity</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>Euro</td>
<td>Euro</td>
<td>Euro</td>
<td>Euro</td>
</tr>
</tbody>
</table>

## INCOME

- **Levy**: 2,296,117
- **Licensing Fees**: 3,290
- **Other Income**: 22,777

**Gross Income**: 2,322,184

**Transfer from/(to) capital account**: -783,075

**Net Income**: 1,539,109

## EXPENDITURE

- **Direct Wages & Salaries**: 1,215,720
- **Pension Costs**: 92,293
- **Recruitment and Training**: 62,059
- **Travel & Subsistence**: 39,574
- **Office Accommodation Expenses**: 160,022
- **IT & Communications**: 55,059
- **Office Service Costs**: 11,684
- **Insurance Premiums**: 17,949
- **Advertising**: 1,508,420
- **Internal Audit fees**: 7,002
- **Other Expenses**: 21,407

**Depreciation**: 44,140

**Asset Disposal**: 0

**Surplus/(Deficit) for the year**: 3,384,406

**Surplus brought forward**: 627,878

**Operating Surplus at 31 December**: 2,323,638

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

| Surplus/(Deficit) for the year | 3,384,406 | (844,577) |
| Actuarial Gain/(Loss) on Pension Liabilities | 61,000 | (1,430,000) |

**Total Recognised Gains and (Losses)**: 3,445,406

The Statement of Accounting Policies and Notes 1 to 14 form part of these Financial Statements.

Tom Reeves  
*On behalf of the Commission*
## BALANCE SHEET

**AS AT 31 DECEMBER 2006**

<table>
<thead>
<tr>
<th>Notes</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro</td>
<td>Euro</td>
</tr>
</tbody>
</table>

### FIXED ASSETS
- Tangible Assets: 4,300,947 in 2006, 1,312,180 in 2005

### CURRENT ASSETS
- Short Term Deposits: 6,504,843 in 2006, 4,614,541 in 2005

### CREDITORS (amounts falling due within one year)
- Creditors: 2,606,058 in 2006, 1,058,759 in 2005
- Repayable State Funding: 0 in 2006, 1,500,000 in 2005

### Net Current Assets excluding pension Liability

### Pension Liability
- (2,565,000) in 2006, (2,880,000) in 2005

### Net Current Assets including pension Liability
- 2,871,889 in 2006, (573,654) in 2005

### Total Assets Less Current Liabilities
- 7,172,836 in 2006, 738,526 in 2005

### FINANCED BY
- Capital Account: 4,300,947 in 2006, 1,312,180 in 2005
- Income and Expenditure Account: 5,708,044 in 2006, 2,323,638 in 2005
- Pension Reserve: (2,836,155) in 2006, (2,897,292) in 2005

### Reserves including pension liability
- 7,172,836 in 2006, 738,526 in 2005

The Statement of Accounting Policies and Notes 1 to 14 form part of these Financial Statements.

Tom Reeves

*On behalf of the Commission*
CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

<table>
<thead>
<tr>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro</td>
<td>Euro</td>
</tr>
</tbody>
</table>

RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/(Deficit) on Income and Expenditure</td>
<td>3,384,406</td>
<td>(844,577)</td>
</tr>
<tr>
<td>Adjustment for non cash item</td>
<td>(253,863)</td>
<td>40,416</td>
</tr>
<tr>
<td>Depreciation</td>
<td>198,725</td>
<td>140,047</td>
</tr>
<tr>
<td>Bank Interest</td>
<td>(217,030)</td>
<td>(54,088)</td>
</tr>
<tr>
<td>Transfer (from)/to capital account</td>
<td>2,988,767</td>
<td>(26,932)</td>
</tr>
<tr>
<td>(Increase)/Decrease in Debtors</td>
<td>(362,004)</td>
<td>(30,713)</td>
</tr>
<tr>
<td>(Decrease)/Increase in Creditors</td>
<td>1,547,299</td>
<td>480,794</td>
</tr>
<tr>
<td><strong>Net Cash Inflow/(Outflow) From Operating Activities</strong></td>
<td><strong>7,286,300</strong></td>
<td><strong>(295,053)</strong></td>
</tr>
</tbody>
</table>

CASH FLOW STATEMENT

**Net cash inflow/(outflow) from operating activities**
7,286,300  (295,053)

Returns on Investments
- bank interest
217,030  54,088

Capital expenditure
- purchase of fixed assets
(3,187,492)  (113,115)

Management of Liquid Resources
- short term deposits
(1,890,302)  (1,603,733)

Financing – Increase in Debt
(1,500,000)  1,500,000

**Increase/(Decrease) in Cash Balances**
925,536  (457,813)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase/(Decrease) in cash in hand in the period</td>
<td>925,536</td>
<td>(457,813)</td>
</tr>
<tr>
<td>Cash used to increase liquid resources</td>
<td>1,890,302</td>
<td>1,603,733</td>
</tr>
<tr>
<td>Cash (Inflow)/Outflow from increase/reduction in Debt</td>
<td>1,500,000</td>
<td>(1,500,000)</td>
</tr>
<tr>
<td>Change in net funds</td>
<td>4,315,838</td>
<td>(354,080)</td>
</tr>
<tr>
<td>Opening Net funds</td>
<td>3,297,693</td>
<td>3,651,773</td>
</tr>
<tr>
<td>Closing Net funds</td>
<td>7,613,531</td>
<td>3,297,693</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 14 form part of these Financial Statements

Tom Reeves
On behalf of the Commission
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

1. ESTABLISHMENT OF THE COMMISSION

The Commission for Electricity Regulation was initially established on 14 July 1999 under the provisions of the Electricity Regulation Act 1999 (no. 23 of 1999). The enactment of the Gas (Interim) (Regulation) Act 2002 expanded the Commission’s jurisdiction to include regulation of the natural gas market on 30 April 2002. The Commission was renamed the Commission for Energy Regulation to reflect this increased responsibility.

The Minister for Communications, Marine and Natural Resources, with the agreement of the Minister of Finance expanded the Commission to a three member Commission on 13 October 2004, as provided under Schedule 1 of the Electricity Regulation Act 1999. The existing Commissioner, Tom Reeves was appointed Chairperson of the Commission. Michael G. Tutty was appointed as Commissioner on 13 October 2004 with the third Commissioner, Regina Finn appointed on 1 February 2005. Regina Finn resigned from her position as Commissioner on 14 September 2006.

2. INCOME

Levy

For the purpose of meeting its expenses under the Electricity Regulation Act, 1999 as amended, the Commission may impose a levy on the relevant energy undertakings. The Commission imposed a levy on the relevant energy undertakings for each activity of transmission, distribution, generation, supply or shipping that is carried out in Ireland as follows:

<table>
<thead>
<tr>
<th>Activity</th>
<th>2006 Gas</th>
<th>2006 Electricity</th>
<th>2006 Total</th>
<th>2005 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation</td>
<td>0</td>
<td>2,534,889</td>
<td>2,534,889</td>
<td>1,654,204</td>
</tr>
<tr>
<td>Transmission</td>
<td>747,772</td>
<td>2,968,320</td>
<td>3,716,092</td>
<td>2,478,996</td>
</tr>
<tr>
<td>Distribution</td>
<td>747,772</td>
<td>2,968,316</td>
<td>3,716,088</td>
<td>2,479,000</td>
</tr>
<tr>
<td>Supply</td>
<td>0</td>
<td>2,985,343</td>
<td>2,985,343</td>
<td>1,718,391</td>
</tr>
<tr>
<td>Shipping</td>
<td>800,573</td>
<td>0</td>
<td>800,573</td>
<td>530,987</td>
</tr>
</tbody>
</table>

Gas Shipping Income includes an amount of €56,797 in respect of unsecured creditors claim at the date of liquidation of Irish Fertilizer Industries.

Other Income

<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Interest</td>
<td>22,777</td>
<td>54,088</td>
</tr>
<tr>
<td>Other</td>
<td>5,402,439</td>
<td>5,425,216</td>
</tr>
</tbody>
</table>

Other Income - Electricity

Pursuant to the provisions of the Capacity 2005 Competition Implementation Agreement dated 24 December 2003 made between the CER and Aughinish Alumina and the CER and Tynagh, the Commission called in the Indemnity Performance Bonds in the amount of €5,208,186 in 2006.
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. EMPLOYEES AND REMUNERATION

Employee costs during the year:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2006</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gas</td>
<td>Electricity</td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>Euro</td>
<td>Euro</td>
<td>Euro</td>
<td>Euro</td>
</tr>
<tr>
<td>Salaries</td>
<td>1,108,410</td>
<td>2,586,209</td>
<td>3,694,619</td>
<td>3,146,149</td>
</tr>
<tr>
<td>Employer PRSI</td>
<td>107,310</td>
<td>246,353</td>
<td>353,663</td>
<td>316,788</td>
</tr>
<tr>
<td></td>
<td>1,215,720</td>
<td>2,832,562</td>
<td>4,048,282</td>
<td>3,462,937</td>
</tr>
</tbody>
</table>

Number of Employees: 16 47 63

The salaries of the Members of the Commission totalled €503,049. The Commission comprises Tom Reeves- Chairman and Michael G. Tutty- Member. Regina Finn, Member resigned on 14 September 2006.

4. TANGIBLE ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Leasehold Improvement</th>
<th>Fixtures &amp; Fittings</th>
<th>Office Equipment</th>
<th>Computer Hardware</th>
<th>Computer Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro</td>
<td>Euro</td>
<td>Euro</td>
<td>Euro</td>
<td>Euro</td>
<td>Euro</td>
</tr>
<tr>
<td>Cost:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2005</td>
<td>1,376,170</td>
<td>191,524</td>
<td>105,758</td>
<td>254,727</td>
<td>81,610</td>
<td>2,009,789</td>
</tr>
<tr>
<td>Additions</td>
<td>2,556,338</td>
<td>449,478</td>
<td>114,116</td>
<td>51,547</td>
<td>16,011</td>
<td>3,187,491</td>
</tr>
<tr>
<td>At 31 December 2006</td>
<td>3,932,508</td>
<td>641,002</td>
<td>219,874</td>
<td>306,274</td>
<td>97,621</td>
<td>5,197,279</td>
</tr>
</tbody>
</table>

Accumulated Depreciation:

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2005</td>
<td>276,708</td>
<td>124,893</td>
<td>63,153</td>
<td>168,088</td>
<td>64,766</td>
<td>697,608</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>85,000</td>
<td>34,428</td>
<td>17,688</td>
<td>47,242</td>
<td>14,367</td>
<td>198,725</td>
</tr>
<tr>
<td>At 31 December 2006</td>
<td>361,708</td>
<td>159,321</td>
<td>80,841</td>
<td>215,330</td>
<td>79,133</td>
<td>896,333</td>
</tr>
</tbody>
</table>

Net Book Value:

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2006</td>
<td>3,570,800</td>
<td>481,681</td>
<td>139,034</td>
<td>90,944</td>
<td>18,488</td>
<td>4,300,947</td>
</tr>
<tr>
<td>At 31 December 2005</td>
<td>1,099,462</td>
<td>66,632</td>
<td>42,603</td>
<td>86,640</td>
<td>16,843</td>
<td>1,312,180</td>
</tr>
</tbody>
</table>

5. DEBTORS (DUE WITHIN ONE YEAR)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro</td>
<td>Euro</td>
</tr>
<tr>
<td>Levy – Gas</td>
<td>4,654</td>
<td>5,374</td>
</tr>
<tr>
<td>Levy – Electricity</td>
<td>384,282</td>
<td>37,813</td>
</tr>
<tr>
<td>AIP Shared Costs due from NIAER</td>
<td>14,606</td>
<td>0</td>
</tr>
<tr>
<td>Prepayments</td>
<td>25,874</td>
<td>24,225</td>
</tr>
<tr>
<td></td>
<td>429,416</td>
<td>67,412</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. CREDITORS (AMOUNTS FALLING DUE WITHIN ONE YEAR)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro</td>
<td>Euro</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>(836)</td>
<td>13,262</td>
</tr>
<tr>
<td>Accrual – O.P.W. Rent</td>
<td>300,386</td>
<td>104,145</td>
</tr>
<tr>
<td>Accrual – Consultancy and Professional fees</td>
<td>1,055,617</td>
<td>498,388</td>
</tr>
<tr>
<td>Accrual – Other Creditors</td>
<td>854,194</td>
<td>147,060</td>
</tr>
<tr>
<td>PAYE/PRSI</td>
<td>247,329</td>
<td>225,917</td>
</tr>
<tr>
<td>Payroll</td>
<td>1,056</td>
<td>1,206</td>
</tr>
<tr>
<td>Professional Services Withholding Tax</td>
<td>148,313</td>
<td>68,781</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,606,058</td>
<td>1,058,759</td>
</tr>
</tbody>
</table>

7. CAPITAL ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2006</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gas</td>
<td>Electricity</td>
<td>Total</td>
</tr>
<tr>
<td>Opening balance</td>
<td>288,165</td>
<td>1,024,015</td>
<td>1,312,180</td>
</tr>
<tr>
<td>Transfer (to)/from Income and Expenditure Account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funds allocated to acquire fixed assets</td>
<td>827,035</td>
<td>2,360,456</td>
<td>3,187,492</td>
</tr>
<tr>
<td>Amount amortised in line with asset depreciation</td>
<td>(43,960)</td>
<td>(154,765)</td>
<td>(198,725)</td>
</tr>
<tr>
<td>Net amount of transfer</td>
<td>783,075</td>
<td>2,205,692</td>
<td>2,988,767</td>
</tr>
<tr>
<td></td>
<td>1,071,240</td>
<td>3,229,707</td>
<td>4,300,947</td>
</tr>
</tbody>
</table>

8. PENSIONS

The Commission for Energy Regulation operates approved defined benefit superannuation schemes, which are funded by contributions from employees and the Commission. An actuarial valuation was carried out as at 1 January 2006 by a qualified independent actuary and updated to 31 December 2006. Scheme assets are stated at their mid-market value as at 31 December 2006.

The major financial assumptions used by the actuary to calculate the liabilities under FRS17 were:

<table>
<thead>
<tr>
<th></th>
<th>At year-end</th>
<th>At year-end</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31/12/2006</td>
<td>31/12/2005</td>
</tr>
<tr>
<td>Rate of increase in salaries</td>
<td>4.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Rate of increase of pensions in payment</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Discount Rate</td>
<td>4.70%</td>
<td>4.25%</td>
</tr>
<tr>
<td>Inflation Assumption</td>
<td>2.25%</td>
<td>2.25%</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. PENSIONS CONTINUED

The assets in the scheme and the expected rate of return were:

<table>
<thead>
<tr>
<th></th>
<th>At year-end 31/12/2006</th>
<th>At year-end 31/12/2005</th>
<th>At year-end 31/12/2006</th>
<th>At year-end 31/12/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000's</td>
<td>€000's</td>
<td>€000's</td>
<td>€000's</td>
</tr>
<tr>
<td>Equities</td>
<td>7.40%</td>
<td>2,873</td>
<td>6.60%</td>
<td>2,058</td>
</tr>
<tr>
<td>Bonds</td>
<td>3.90%</td>
<td>366</td>
<td>3.10%</td>
<td>350</td>
</tr>
<tr>
<td>Property/Other</td>
<td>5.4%/2.5%</td>
<td>840</td>
<td>4.6%/2.0%</td>
<td>208</td>
</tr>
<tr>
<td><strong>Total market value</strong> of assets</td>
<td><strong>4,079</strong></td>
<td><strong>2,616</strong></td>
<td><strong>4,079</strong></td>
<td><strong>2,616</strong></td>
</tr>
<tr>
<td>Actuarial value of liability</td>
<td><strong>(6,644)</strong></td>
<td><strong>(5,496)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recoverable surplus/(deficit) in scheme</td>
<td><strong>(2,565)</strong></td>
<td><strong>(2,880)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related deferred tax</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net pension asset/(liability)</strong></td>
<td><strong>(2,565)</strong></td>
<td><strong>(2,880)</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ANALYSIS OF THE AMOUNT CHARGED TO OPERATING SURPLUS

<table>
<thead>
<tr>
<th></th>
<th>Year to 31/12/2006</th>
<th>Year to 31/12/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>1,683</td>
<td>834</td>
</tr>
<tr>
<td>Employee Contributions</td>
<td>(1,007)</td>
<td>(420)</td>
</tr>
<tr>
<td>Past service cost</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(Gains)/Losses on Settlements &amp; Curtailments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net charge</strong></td>
<td>676</td>
<td>414</td>
</tr>
</tbody>
</table>

ANALYSIS OF NET RETURN ON PENSION SCHEME

<table>
<thead>
<tr>
<th></th>
<th>Year to 31/12/2006</th>
<th>Year to 31/12/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected return on pension scheme assets</td>
<td>174</td>
<td>125</td>
</tr>
<tr>
<td>Interest on pension liabilities</td>
<td>(251)</td>
<td>(170)</td>
</tr>
<tr>
<td><strong>Net return</strong></td>
<td>(77)</td>
<td>(45)</td>
</tr>
</tbody>
</table>

ANALYSIS OF AMOUNT RECOGNISED IN STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)

<table>
<thead>
<tr>
<th></th>
<th>Year to 31/12/2006</th>
<th>Year to 31/12/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual return less expected return on assets</td>
<td>137</td>
<td>219</td>
</tr>
<tr>
<td>Experience gains and losses on liabilities</td>
<td>(868)</td>
<td>(324)</td>
</tr>
<tr>
<td>Changes in assumptions</td>
<td>792</td>
<td>1,325</td>
</tr>
<tr>
<td><strong>Actuarial gain/(loss) recognised in STRGL</strong></td>
<td>61</td>
<td>(1,430)</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. PENSIONS CONTINUED

MOVEMENT IN SURPLUS DURING THE YEAR

<table>
<thead>
<tr>
<th></th>
<th>Year to 31/12/2006</th>
<th>Year to 31/12/2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit in scheme at beginning of year</td>
<td>(2,880)</td>
<td>(1,411)</td>
</tr>
<tr>
<td>Movement in year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current service cost</td>
<td>(676)</td>
<td>(414)</td>
</tr>
<tr>
<td>Employee Contributions</td>
<td>1,007</td>
<td>420</td>
</tr>
<tr>
<td>Other finance income</td>
<td>(77)</td>
<td>(45)</td>
</tr>
<tr>
<td>Actuarial gain/(loss)</td>
<td>61</td>
<td>(1,430)</td>
</tr>
<tr>
<td>Surplus/(Deficit) in scheme at end of year</td>
<td>(2,565)</td>
<td>(2,880)</td>
</tr>
</tbody>
</table>

HISTORY OF EXPERIENCE GAINS AND LOSSES

<table>
<thead>
<tr>
<th></th>
<th>Financial year ending in</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Difference between expected and actual return on scheme assets amount (€)</td>
<td>137</td>
</tr>
<tr>
<td>percentage of scheme assets</td>
<td>3%</td>
</tr>
<tr>
<td>Experience gains and losses on scheme liabilities amount (€)</td>
<td>(868)</td>
</tr>
<tr>
<td>percentage of scheme liabilities</td>
<td>(13%)</td>
</tr>
<tr>
<td>Total amount recognised in statement of total recognised gains and losses amount (€)</td>
<td>61</td>
</tr>
<tr>
<td>percentage of scheme liabilities</td>
<td>1%</td>
</tr>
</tbody>
</table>

PRIOR PENSIONABLE SERVICE

The assets and liabilities of the pension schemes relate to retirement benefits arising from service with the Commission. Two Commission members and six staff members have superannuation entitlements arising from service with other public sector bodies prior to their joining the Commission. Payment of superannuation benefits in respect of such prior service will be made by the Commission and recouped from these other bodies.

9. RECRUITMENT AND TRAINING

With reference to the project “Introduction of ECDL programme to the CER” a sum of €33,125.50 was received from the DCMNR Innovation and Change Management Fund, Subhead I of the Communications, Marine and Natural Resources Vote.
10. SURPLUS FOR THE YEAR

In accordance with Paragraph 20 of the Schedule to the Electricity Regulation Act, 1999 the Commission is required to apply any excess of revenue over expenditure in any year to meet its expenses. Accordingly the surplus attributed to the electricity sector of €6,622,349 was taken into account in determining the levy order for 2007. The deficit attributed to the gas sector of €1,168,198 was taken into account in determining the levy order for 2007.

11. INTERESTS OF MEMBERS OF THE COMMISSION

The Commission adopted procedures in accordance with the Code of Practice for the Governance of State Bodies issued by the Department of Finance in relation to the disclosure of interests by the Members of the Commission and these procedures have been adhered to in the year. There were no transactions in the year in relation to the Commission’s activities in which the Members of the Commission had any beneficial interest.

12. COMMITMENTS – CAPITAL AND OTHERS

12.1 Capital Commitments:
The Commission had neither contracted for nor authorised any capital expenditure at the balance sheet date.

12.2 Operating Leases
The Commission has commitments of €104,100 payable within the next twelve months on foot of a twenty five-year lease for office accommodation at The Exchange, Belgard Square North, Tallaght, Dublin 24, leased from Breydon Developments Ltd.

13. ALL ISLAND ENERGY MARKET

The Commission incurred expenditure of €2,500,000 in 2006 (€1,599,937 in 2005) in relation to investigating how such a market would work. The Department of Communications Marine and Natural Resources has advanced €2.5m in 2006 (€1.5m in 2005) to the Commission to cover costs incurred. The amount has been treated as a loan and is repayable to the Department.

In December 2006 the relevant legislation i.e. the Energy (Miscellaneous Provisions) Bill 2005 was enacted and the CER repaid the total of €4m to the Department of Communications, Marine and Natural Resources on 29 December 2006.

14. APPROVAL OF FINANCIAL STATEMENTS

The Commission approved these financial statements on 15 August 2007.