



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Joint Oireachtas Committee

Energy prices and the effect on the consumer and small business

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Energy Policy Objectives

- Security of Supply
- Competitiveness
- Environment

- Difficult to reconcile these competing objectives

Energy Price Rises

	2005	2006	2007
Electricity	3.5%	4%	12.6%
Gas	10.7%	25%	33.8% (- 10%)

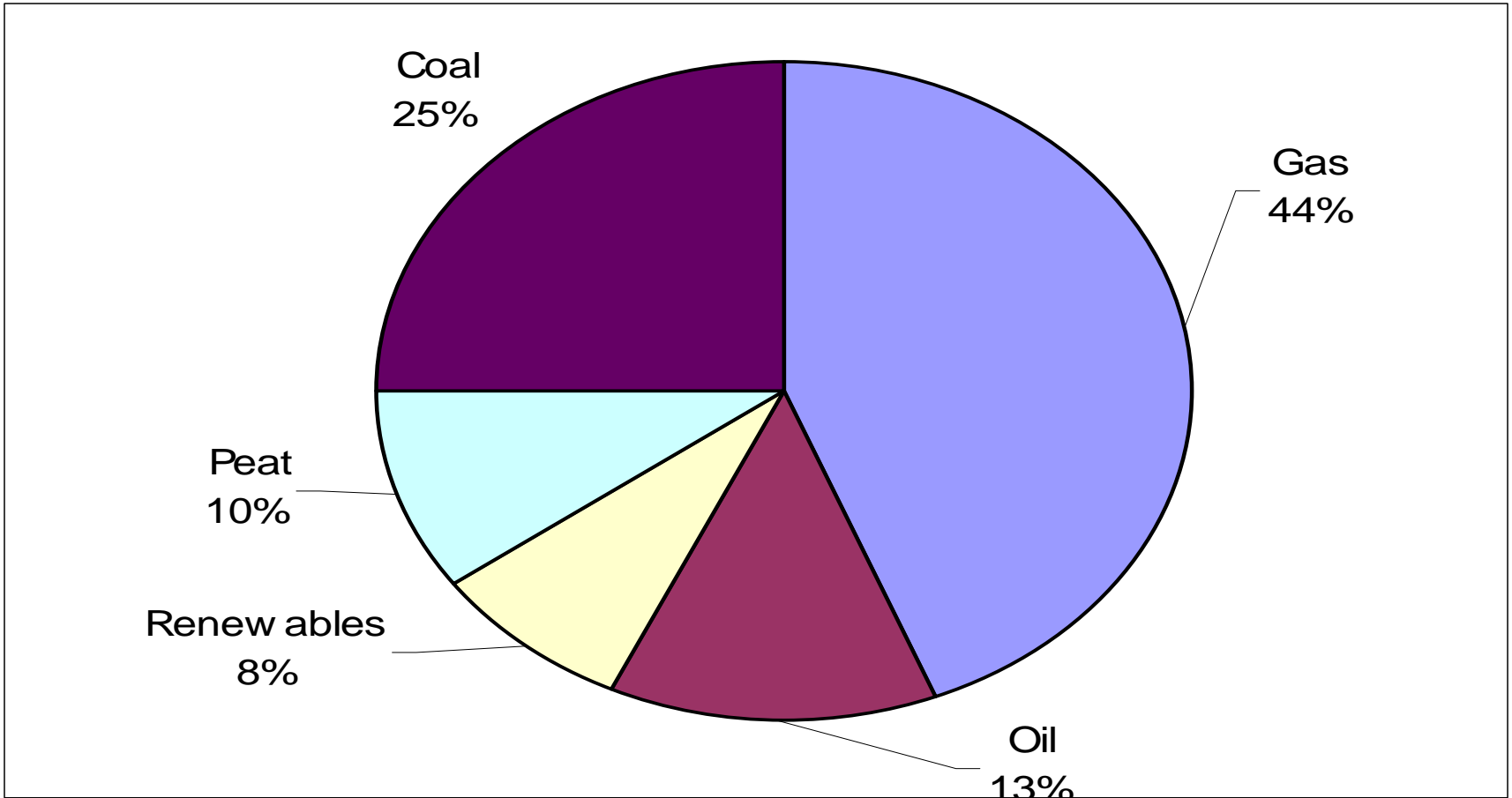
Components of Final Price of Electricity 2007

Generation	Networks	Supply	Total
71.4%	24.3%	4.3%	100%

- Approx 45% of the cost of generation is fuel costs alone. This means that in 2007, fuel costs make up about a third of the final price of electricity.
- Reliance on imported fuel to generate electricity is the single greatest determinant of electricity prices.
- Gas procurement costs make up 62% of the final price of gas.
- Almost 90% of gas supplied in Ireland is now imported from the UK.

Fuel Mix in the Irish Generation Sector

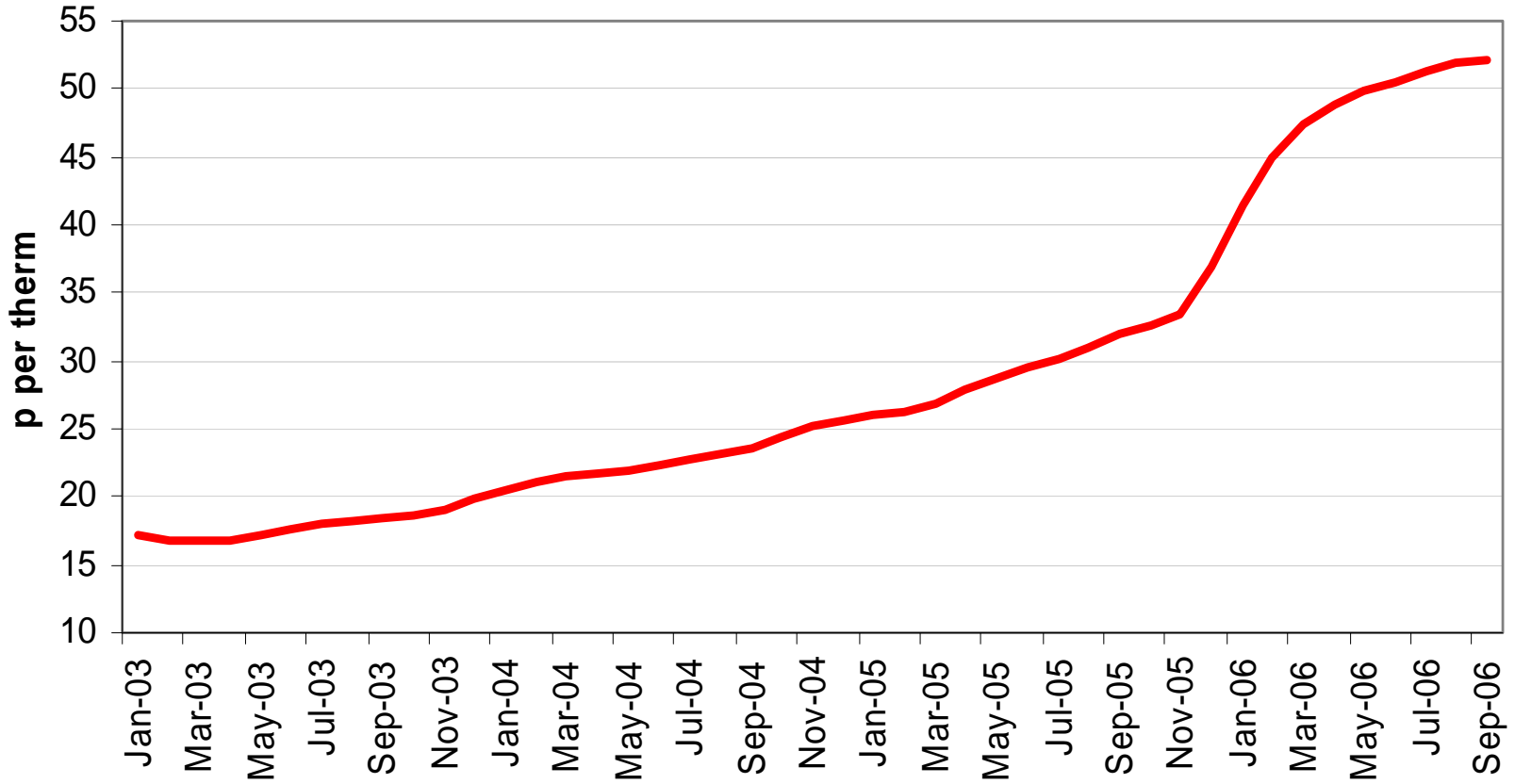
Energy Generated by Fuel in 2005



Fuel Costs

- Coal, gas and oil (imported fossil fuels) will account for 45%, 34% and 16% respectively of ESB's (non-peat) electricity production in 2007.
- The cost of wholesale gas tripled between September 2003 and September 2006 (18p/ therm to 53p/ therm).
- Oil prices increased by 36% between September 2005 and September 2006.

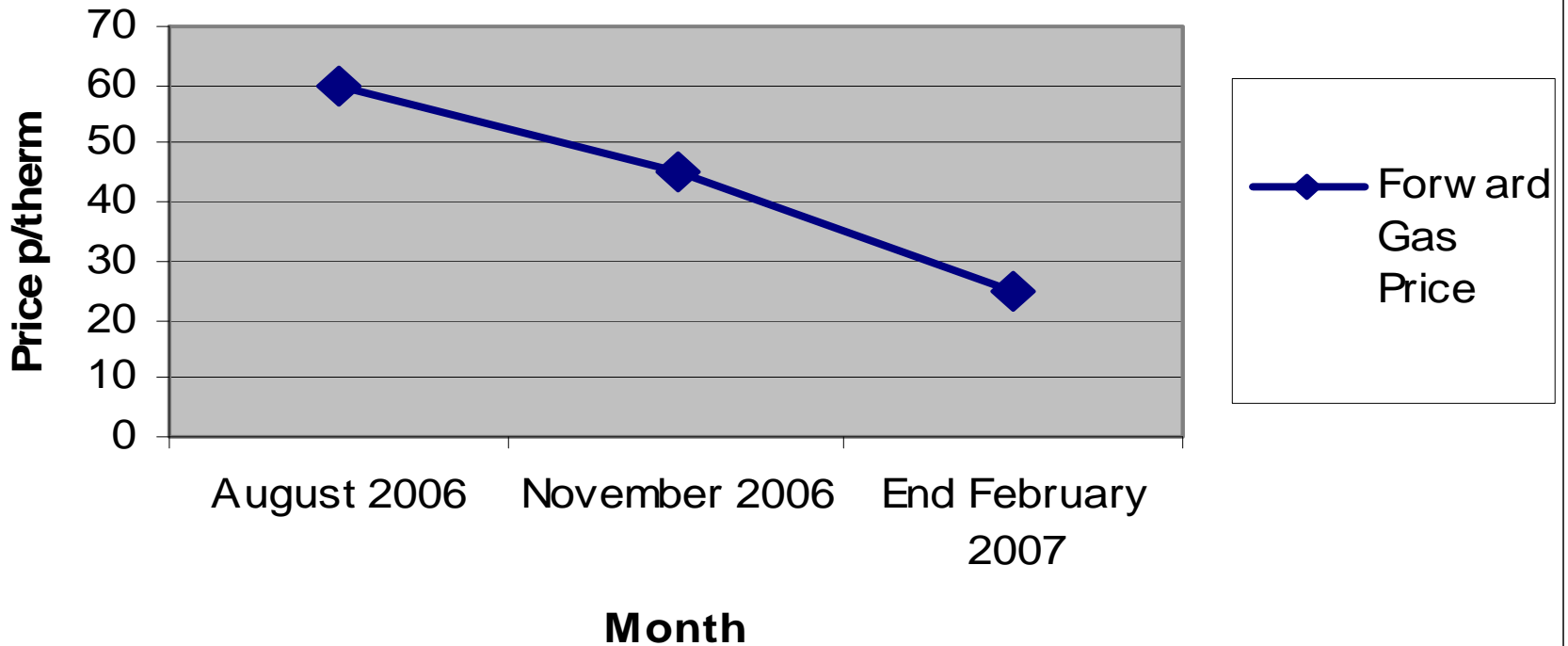
Wholesale Gas Prices: 03 - 06



— 12 month historic moving average

Forward Gas Price Autumn 2007 - Present

Forward Gas Price for 2007 Gas



Impact of Electricity and Gas on Inflation

- Gas and electricity prices have traditionally only changed once per annum.
- This inevitably leads to an “inflationary shock” in that month.
- Up to now industrial and commercial customers wanted certainty in prices for budgeting purposes.
- They were also protected for 12 months when prices were rising on international markets.

Why allow ESB & BGE to recover full fuel bill?

- Principle of cost reflective tariffs.
- Failure to allow ESB and BGE to recover legitimate costs undermines other competitors in the market.
- Nearly all large customers have now moved from ESB.
- We have removed tariffs from this market segment.

Fuel Purchasing Incentive

- Regulatory Mechanism placed on ESBPG to incentivise it to get best value from fuel purchases.
- Fuel savings compared to market indices are shared between ESBPG and customers.

Other Mechanisms

- Fuel Price Variation Mechanism – latest consultation in 2006 on electricity and about to consult on gas.
- Seasonal Time of Day Tariffs (STOD) – Better to reflect time of day cost of electricity and give clear signal to customers to better manage their load.
- Smart metering – Consultation in 2007
- Tariff Structures – Gas tariff structure review in 2007.

Price Outlook

- International fuel prices started to fall in October 2006.
- Original electricity increase reduced by 7% points
- 10% reduction in natural gas retail prices applied from 1 February 2007.
- If fuel prices continue to fall, customers will see further reductions in bills.
- Nature of setting tariffs once per annum leads to price lag.

What else is being done to increase competition in the market?

- SEM – November 2007
- CER-ESB Asset Strategy Agreement – reduce ESB’s generation market share to 40% by 2010.
- Ending of tariff regulation for larger customers.
- Development of East-West Interconnector and second North-South Interconnector by 2012.

Security of Supply Winter 2006/-07

- Significant growth in demand – peak demand grew by >200MW and overall demand growing by ~5% pa
- New record peak demand of 5,035MW (ahead of forecast figure of 5,00MW)
- Despite record high, system has remained secure and an adequate margin maintained

Security of Supply – Medium Term

- Major generation station closure programme announced by ESB – removing more unreliable/older plant from system and replacing them with new cleaner reliable stations.
- Continued and substantial growth in electricity demand is forecast
- To be met with substantial increase in generation capacity (Huntstown 2 in 2007, new ESB & BGE plant by end 2009 = ~1,200MW increase by end 2009)

Network Renewal

- Prior to 2001, many years of under-investment in Ireland's electricity network.
- €3.2 billion sanctioned by CER for investment between 2001 and 2005.
- €2.3 billion sanctioned for 2006 – 2010.
- Reliability of supply is hugely important; Ireland has not suffered significant power outages like those seen recently in Germany, Austria, Italy, US, France, Netherlands.
- €360 million invested in gas network (2003 – 2007)
- Five year forecast review of gas revenues being carried out at present.

Conclusions

- Ireland does not operate in isolation to international fuel markets.
- Our reliance on imported coal, oil and gas for power generation makes us particularly vulnerable to market volatility.
- However, the corner appears to have been turned with regard to prices as reflected in the 10% reduction in gas prices on 1 February.
- Security and reliability of supply extremely important; CER taking necessary steps to ensure continued security and reliability and quality.