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LEGAL FRAMEWORK FOR SINGLE ELECTRICITY MARKET GOES ACTIVE

The Regulatory Authorities for energy in Ireland and Northern Ireland have announced that the legal framework for the Single Electricity Market has gone active from today, 3rd July 2007. This is the main preparatory step to the start of trading planned for 1st November 2007.

The Single Electricity Market, the flagship project for the emerging All Island Energy Market, is a single set of wholesale electricity trading arrangements for the island of Ireland. This unique development combines two smaller markets to bring competition, security of supply and efficiency benefits to all electricity consumers on the island.

Tom Reeves, Chairman of the CER and **Iain Osborne, CEO of NIAUR**, have both strongly welcomed this major step towards implementation of the SEM and have acknowledged the significant effort and co-operation across the industry to get to this stage.

Both administrations have now enacted the necessary legislative framework to support the SEM. The rules of the new market, as set out in the Trading & Settlement Code, are now formally adopted. These new rules will become binding on all generators and suppliers of electricity who will be obliged to sign up to the new market and its rules under new licence amendments. Finally, the two transmission system operators on the island, Eirgrid and SONI Ltd., will jointly undertake the central market administrative function of Single Market Operator under new licences issued today.

To reflect the joint nature of these arrangements the Commission for Energy Regulation (CER) and the Northern Ireland Authority for Utility Regulation (NIAUR) will refer all SEM Matters to a joint SEM Committee for decision. The SEM Committee, established under statute in both jurisdictions, will be put in place during this Go Active period and will comprise members of both Regulatory Authorities as well as an Independent Member.

Further information on the SEM and Go-Active can be obtained from the AIP Website – www.allislandproject.org

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Notes to Editors

1. The Regulatory Authorities comprise CER and NIAUR;
 - a) The Commission for Energy Regulation (CER) is the independent body responsible for overseeing the liberalisation of Ireland's energy sector, and
 - b) The Northern Ireland Authority for Utility Regulation (the Authority) was established in 2003. Most of the Functions of the Directors General of Electricity Supply and Gas for Northern Ireland were transferred to the Authority on 1 April 2003. The water and sewerage functions were transferred to the Authority on 1 April 2007.
2. The new Single Electricity Market (SEM) arrangements relate to the trading of wholesale electricity in Northern Ireland and Ireland. In designing and implementing the SEM the Regulatory Authorities have been, and continue to be, committed to the principle of co-operation in order to ensure to the fullest extent possible the effective, efficient and competitive functioning of the SEM.
3. The Regulatory Authorities have designed the SEM arrangements to promote the creation of a single competitive, sustainable and reliable market in wholesale electricity in Northern Ireland and Ireland within the context of the European Union's policy on the creation of an EU-wide internal market for electricity, while aiming to minimise the cost of establishing such a market.
4. In particular, the Regulatory Authorities have designed the SEM arrangements that they will, among other things:
 - (a) be transparent, integrated and promote competition in the sale and purchase of wholesale electricity on an all-island basis, and thereby enhance prospects for investment in the electricity sector in Northern Ireland and Ireland;
 - (b) facilitate the participation of renewable energy generators in the market;
 - (c) take into account the operation of arrangements in relation to the environment;
 - (d) incorporate a harmonised approach to transmission connection policy and planning criteria for transmission networks and

activities, and appropriate regulatory and contractual arrangements for the planning, development, operation and contractual access for connection to and use of the transmission systems in Northern Ireland and Ireland being undertaken on an appropriately co-ordinated all-island basis;

- (e) provide for the monitoring and regulation of the behaviour of market participants and including the imposition of bidding principles;
 - (f) incorporate a co-ordinated approach to address the issue of market power effectively in a transparent manner;
 - (g) include appropriate regulatory and contractual mechanisms to enable the arrangements to develop over time, in line with the aims of the SEM;
 - (h) promote, where possible, a harmonised approach on an all-island basis to security of supply issues; and
 - (i) provide for a harmonised approach to the investigation of licence breaches including, where appropriate, provision for on-site investigations.
5. An independent Cost-Benefit Study of the Single Electricity Market¹ for the Regulatory Authorities found;
- a) that the social net benefits of the SEM (taken over a 10 year period) will be approximately €155M in Net Present Value (NPV) terms. In terms of the impacts on market participants it was estimated that the profits of market participants across the island will increase slightly.
 - b) in terms of the impacts on consumers it is estimated that there will be a marginal fall in end-user prices in both NI and ROI with consumers capturing the majority of the net benefits of SEM implementation, equal to NPV €127M, with a fairly even split between NI and ROI consumers.
 - c) in addition to the quantitative benefits mentioned above it is believed that a range of other benefits will accrue from the SEM. These include:
 - i) improved competition and reduced market power;
 - ii) improved co-ordination of transmission operation;
 - iii) better management of loop flows in the future;
 - iv) environmental savings; and
 - v) enhanced effectiveness of regulatory institutions from pooling of experience.

¹ A Cost-Benefit Study of the Single Electricity Market – A Final Report for NIAER and CER by NERA Economic Consulting, 30th November 2006. The full text of the report is available at www.dcmnr.gov.ie