Commission for Energy Regulation
Annual Report & Accounts 2007
To: Mr Eamon Ryan, T.D. 
Minister for Communications, Energy 
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 ninth annual report of the Commission 
for Energy Regulation, in respect of the period from 

In accordance with the requirements set out in S.I. 452 
of 2004, we are also pleased to present to you the first 
Customer Affairs annual report of the Commission for 
Energy Regulation, in respect of the period 1st January 

Tom Reeves
Chairperson

Michael G. Tutty
Commissioner
# Contents

## Note to Minister

## Foreword by the Commission

## Statement of Best Practice

## Introduction

### Key Task 1:
Implement ESB Power Generation Asset Strategy Agreement

### Key Task 2:
Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) plans

### Key Task 3:
Complete Bord Gáis Networks and Supply Five Year Revenue Reviews (2007 – 2012)

### Key Task 4:
Implement Customer Care Plan

### Key Task 5:
Arrange for the design and launch of a competition for an East-West electricity interconnector

### Key Task 6:
Review and approve electricity and gas prices for 2008

### Key Task 7:
Implement Gate 2 policy and consider next steps

### Key Task 8:
Manage impact in Ireland of proposed reforms in UK gas transmission offtake arrangements

### Key Task 9:
Develop structures for implementing our safety responsibilities

### Key Task 10:
Implement HR Strategy and the development of the Business Information Centre (BIC)

## CER Project Office

## Common Arrangements for Gas (CAG)

## Smart Metering

## SEM Committee

## Appendix A
Commission Work Programme 2008 - Our Ten Key Work Items

## Appendix B
Customer Affairs Team (CAT) Annual Report 2007

## Appendix C
CER Organisational Chart

## Appendix D
CER Financial Statements 2007
Foreword by the Commission

The year 2007 marked a defining moment in the Irish Energy Sector with the establishment of the historic Single Electricity Market (SEM) for Ireland and Northern Ireland on 1 November. The commencement of the SEM represents a significant step towards progressive market reform and the development of greater competition in the electricity and gas sectors.
Much of the CER’s focus during the year was on the continued design and development of the SEM. On 11 April 2007 the two Regulatory Authorities (CER & NIAUR) for energy in Ireland and Northern Ireland signed a second Memorandum of Understanding (MOU) setting out a programme of agreed measures for the further strategic development of all island electricity markets.

Then on 3 July 2007, the Regulatory Authorities announced ‘Go-Active’ of the legal framework for the SEM. This was the final preparatory step before ‘Go-Live’-the start of trading on 1 November 2007.

In conjunction with the SEM, the development of greater levels of competition in the electricity generation market was also a key area of focus for the Commission in 2007. In April, the Commission and ESB signed the legally binding CER-ESB Asset Strategy Agreement outlining plans for ESB to reduce its generation portfolio by 1,300 MW plus an additional 200 MW of peaking plant. In return ESB were granted permission to construct a new CCGT 430MW plant at Aghada, Co. Cork.

The past year has also been an important one for the Natural Gas Market in Ireland with full market opening taking place in July 2007. While competition in the residential and small business sector of the market is still in the early stages of development, the Commission is developing the necessary structures and processes to ensure the market functions in a manner that is fair and transparent and allows new participants to enter and compete. In this regard the CER have turned their focus to the next stage of developing All Island Markets -Common Arrangements for Gas (CAG).

Throughout 2007, the CER was engaged in the five year annual reviews of Bord Gáis Networks and Bord Gáis Supply businesses. The reduction in Bord Gáis Transmission and Distribution tariffs as a result of these reviews alongside falling international fuel prices contributed to significant natural gas price decreases for end users; 10% reduction in February 2007 with an additional 10.6% on average reduction implemented on 1 October 2007. The Commission also oversaw a restructuring of BGS tariffs. The new suite of tariffs introduced in October 2007 provide for increased cost reflectivity and greater customer choice, based on consumption.

Regulated end user electricity prices saw an increase in January 2007, primarily as a result of high international fuel prices throughout 2005 and 2006. Fuel prices however softened during 2007 and a much welcomed decrease of 6.1% on average was implemented from 1 November 2007. The current outlook for 2008 though indicates significant upward pressure on fuel prices.

Following the enactment of the Energy (Miscellaneous Provisions) Act 2006 in December 2006, the CER’s functions were expanded in a number of areas. Significantly, the Act assigns the Commission responsibility for the regulation of electrical contractors with respect to safety and of natural gas undertakings and installers with respect to safety. The Commission established Gas Safety and Electricity Safety Teams during 2007, with responsibility for implementing the CER’s gas and electricity safety responsibilities under this act. The Commission has now published a number of papers outlining its vision and specific proposals for the gas safety framework, including the approach to the regulation of gas installers, and for the regulation of electrical contractors with respect to safety.

The Government undertook a major review of energy policy in Ireland in late 2006, culminating in the publication of its White Paper on Energy Policy in March 2007. The CER welcomed the initiatives and actions outlined in the White Paper on Energy. It sets out detailed and focused policy for the development of the Energy Sector in Ireland in the period between now and 2020. Renewable energy targets of 15% of total consumption by 2010 and 33% by 2020 have been set, while a number of other policies aimed at market development are also outlined. The CER

---

will work with government and relevant stakeholders on how best to achieve the targets and actions set out in the White Paper

Some of the key highlights and milestones of the year from a regulatory point of view are listed below:

- The Commission published a paper outlining the estimated timeline for connection of Gate 2 offers in Feb 2007. By end 2007, there was over 800MW of wind generation on the system. We are now well on the way to meeting our renewable energy targets as set out in the Government’s White Paper on Energy.

- Significant progress has been made on the East-West Interconnector between Ireland and Wales. The Commission approved a route in July 2007 and in conjunction with Eirgrid, finalised the design of a competition in December 2007 for the construction of the interconnector. The interconnector will have a capacity of 500 MW and is due to be constructed no later than the end of 2011.

- The CER commenced the first phase of a smart metering project which will examine potential applications and the technical and system developments that are optimal in the context of the Irish electricity market. Within this project ESB Networks (ESBN) has commenced the development of a pilot study which will see up to 25,000 smart meters installed in various locations countrywide.

- The CER commenced a Review of its Public Consultation Process in late 2007. The aim of this review is to identify and address any areas of the current process in need of improvement. This will ensure a more user friendly and efficient consultation process is put in place.

- In March 2007 the CER formally launched supplier and network operator Codes of Practice for customer protection. This has been a culmination of a number of years work between the Commission and suppliers and network operators.

At an organisational level, the Commission implemented a restructuring of divisions in November 2007. There are currently four main functional divisions of the CER and an operations division that provides support services across all teams. These divisions are; Electricity Markets, Electricity Networks and Retail, Gas, and Safety, Environment and Customer Affairs. The Commission continued to operate as a two person body during 2007; however, a third Commissioner has been appointed and will take up the position from July 2008.

In conclusion the Commission believes that while the past year has seen substantial progress in market development, a significant body of work remains to be done. Of key importance throughout 2008 will be the continued development of the SEM, with the objective of realising competitive benefits for customers. We will continue to work with our colleagues in NIAUR and the SEM Committee to achieve this. Also of key importance is the successful development of the Common Arrangements for Gas (CAG). The CER remains committed to working with its industry partners and would like to thank all those who contributed to the Commission’s work throughout 2007.

Tom Reeves
Chairperson

Michael G. Tuty
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 carrying out its functions and duties. In this regard, the Commission has fully complied during 2007 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 2008 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 registerable 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
CER Mission Statement

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.
The Annual Report of the Commission for Energy Regulation (CER) for the year 2007 provides an outline of the CER’s key work items and achievements for the year. Much of this work is ongoing; however, this report details the Commission’s progress throughout 2007 towards achieving its strategic objectives. 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.

In addition, the first annual report of the CER Customer Affairs Team can be found in Appendix B. This report details the work of the Commission’s Customer Affairs Team during 2007 and provides details of complaints received by the CER and service levels provided by suppliers.

CER Work Programme 2007

For the business year 2007, the Commission identified ten key tasks for delivery. While the main focus of the Commission’s work throughout 2007 was on the achievement of these 10 key tasks the Commission also approved 75 related work items for delivery during the year. Details of the Commission’s Work Plan were published in January 2007.

Work on these tasks contributed significantly to the CER’s overall strategic objectives. The CER aims to provide robust, effective and independent regulation in the Irish energy markets.

The CER’s ten key tasks for 2007 were as follows:

1. Implement ESB Power Generation Asset Strategy Agreement;
2. Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) Plans;
3. Complete Bord Gáis Networks and Supply 5-year revenue reviews;
4. Implement Customer Care Plan;
5. Arrange for the design and launch of a competition for an East-West electricity interconnector;
6. Review and approve electricity and gas prices for 2008;
7. Implement Gate 2 policy and consider next steps;
8. Manage impact in Ireland of proposed reforms in UK gas transmission offtake arrangements;
9. Develop structures for implementing our safety responsibilities;
10. Implement HR Strategy and the development of the Business Information Centre (BIC).

The Commission’s Annual Report 2007 is structured around the work carried out by the Commission in achieving each of these key tasks throughout 2007. This means that details of the Commissions work can be found under each of the above headings. In addition, this report refers to the CER Divisional structure that was in place during 2007. Details of the Commission’s new organisational structure (Nov 2007) can be found in Appendix C.

Some of the Commission’s tasks are singular in nature (e.g. ESB Asset Strategy) while others involve a significant amount of inter-dependent work activities (e.g. Implementation of the SEM). This report also provides details of additional work carried out in 2007 which supported the ten key tasks.
1

Key Task

Implement ESB Power Generation Asset Strategy Agreement

Division: Operations, Generation and Safety

In April 2007 the CER and ESB Power Generation (ESBPG) signed the “CER-ESB Asset Strategy Agreement” This package of measures will see ESBPG’s share of the electricity generation market reduced to around 40% by 2010.
Implement ESB Power Generation Asset Strategy Agreement

As a follow-up to the signing of this agreement, the ESB announced the names of the plants that will make up the 1500MW of reduction in ESB’s generation portfolio and a detailed implementation plan was agreed and published on the CER website on 29 June 2007.

Table 1.0 provides details of these stations:

<table>
<thead>
<tr>
<th>Plant</th>
<th>Export Capacity</th>
<th>Location</th>
<th>Fuel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Great Island</td>
<td>216MW</td>
<td>Wexford</td>
<td>Heavy Fuel Oil</td>
</tr>
<tr>
<td>Poolbeg Thermal</td>
<td>461 MW</td>
<td>Dublin</td>
<td>Heavy Fuel Oil /Gas</td>
</tr>
<tr>
<td>Tarbert</td>
<td>590 MW</td>
<td>Kerry</td>
<td>Heavy Fuel Oil</td>
</tr>
<tr>
<td>Marina Steam Turbine</td>
<td>27 MW</td>
<td>Cork</td>
<td>Gas</td>
</tr>
<tr>
<td>Peaking Plant</td>
<td>4* 50 MW</td>
<td>Various</td>
<td>Distillate Oil</td>
</tr>
</tbody>
</table>

In return for the above, the Commission authorised the construction of ESB’s new generating unit in Aghada, Co. Cork (430MW). It is expected that this new plant will be available to the system in late 2009.

Implementation Plan:
The following Indicative Programme was proposed by ESB:

Table 2.0 – ESB Indicative Programme

<table>
<thead>
<tr>
<th>Indicative Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
</tr>
<tr>
<td>Launch of sales process for all sites committed to in the Agreement including those at Shannonbridge / Lanesboro</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>Poolbeg 3 Peaking Plants</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>Great Island 1,2,3</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>Poolbeg 1,2 Marina Steam Turbine Tarbert 1,2</td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>Tarbert 3,4</td>
</tr>
</tbody>
</table>

The Commission met with ESBPG on a regular basis during 2007 and are satisfied that significant progress towards full implementation of this agreement has been made. This work will continue throughout 2008.

The Asset Strategy Agreement is a key factor in facilitating the development of competition in the electricity market in Ireland, for the benefit of electricity customers in Ireland and Northern Ireland. In addition, the construction of ESB’s new plant at Aghada will ensure Security of Supply is enhanced.

RELATED WORK ITEMS

The generation team also completed a number of work items in the areas of Licensing and Security of Supply which support the key objective of the CER-ESB Asset Strategy Agreement: that is to encourage and foster growth of competition in the Irish electricity generation sector, while maintaining competitive and secure supplies.

New Licences – Conventional Plant

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 2007 shows that a total of 401MW of installed capacity was licensed to generate electricity, with 875MW authorised for construction or reconstruction.

In 2007, the following conventional plant licences were issued:

- An Authorisation to Construct a Generating Unit granted to ESBPG for the unit at Aghada, Co. Cork (the granting of this was part of the work on the Asset Strategy).
- An Authorisation to Construct a Generating Unit granted to Bord Gáis Eireann for the unit at Whitegate, Co. Cork.
- A Generation Licence granted to Viridian Power & Energy Limited for the second unit at Huntstown, Dublin.
In 2008, the Commission expects an increase in the number of applicants applying for licences as a combination of the asset strategy and the SEM attract interest into the power generation section of the Irish Electricity Market. Amongst those who have applied for planning permission for generation stations are the Quinn Group (445 MW CCGT baseload plant) and Mountside Properties Ltd (100MW OCGT mid-merit plant) who intend to construct stations in Co. Louth and Co. Tipperary respectively.

**Security of Supply**

The Commission is responsible for overseeing and ensuring security of supply and generation adequacy in Ireland, along with EirGrid and the Minister for Communications, Energy and Natural Resources.

In carrying out its duties under the Electricity Regulation Act 1999, the Commission must have regard for the need to promote the continuity, security and quality of supply of electricity.

![Figure 1.0: Growth in peak electricity demand 2000 – 2007](image)

**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 2007 was 5,085 MW and was recorded on 18 December 2007. This was an increase of 1.0% over the peak recorded for 2006 and represents a smaller increase than that seen in recent years. The electricity system remained secure in 2007 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 2007.

Ireland’s dispatchable plant capacity was increased in late 2007, following the commissioning of Huntstown2, adding over 400MW of new dispatchable generation capacity to the system.

2. In addition, approx 68MW of wind was connected to the system in 2007.
Generation System Monitoring

The Commission continued to monitor the electricity demand and supply balance throughout 2007. At one end of the spectrum, the CER operates a weekly monitoring process and is in contact with EirGrid on a daily basis during times of system tightness. A weekly report is published on the Commission’s website (www.cer.ie) which provides information about the performance of the generation system. In addition, a number of measures are in place regarding medium-longer term monitoring:

- Security of supply will be enhanced with the development of additional electrical interconnection and the commissioning of two new large CCGT plant in 2009 and 2010,

- EirGrid published the Generation Adequacy Report for 2008 – 2014, in late 2007. The report sets out EirGrid’s assessment of the generation capacity that will be in place to meet projected growth in electricity and the possible effects on overall demand/supply balance. The Commission carried out a detailed examination of the findings of the report,

- In accordance with the requirements of Directive No. 2003/54/EC and Statutory Instrument No. 60 of 2005 the Commission will publish its second Security of Supply report in July 2008. This report will describe the CER’s monitoring activities, present 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 Commission will continue to closely monitor the current and future expected system conditions throughout 2008.

Task Force on Emergency Procedures

The Task Force on Emergency Procedures was established by the Commission in April 2005 to examine and report on the procedures to be followed in the event of an emergency on the electricity and/or gas networks.

In particular the Task Force was charged with looking at these procedures in light of the increasing interdependencies between the two systems. The Taskforce consists of a member from the Commission, the Department of Communications, Energy and Natural Resources, EirGrid, ESB Networks and Bord Gáis Networks (BGN).

In January 2007, the Task Force completed a report outlining a number of recommendations as to how the emergency arrangements on both the electricity and gas systems can be improved. Given the sensitivity of some of the information in the report, it was not published in full, but a summary report, listing the key recommendations, can be found on the Commission’s website 3. The Task Force met throughout 2007 to implement these recommendations and will continue to meet in 2008 to ensure full implementation of the Task Force’s recommendations.

Fuel Mix in the Irish Generation sector

The CER’s Security of Supply report 2008 will outline the present fuel mix in the Irish generation sector. Eirgrid’s Generation Adequacy Report 2008-2014 indicates 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.

---

3. CER/07/195
The table below provides an indication of the installed plant, by fuel, for 2007:

Table 3.0: Fuel Mix and Installed Generation Capacity 2007 year end

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>MW</th>
<th>% of Total Installed MW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>3283</td>
<td>46.01</td>
</tr>
<tr>
<td>Coal</td>
<td>852.5</td>
<td>11.95</td>
</tr>
<tr>
<td>Oil</td>
<td>1014</td>
<td>14.21</td>
</tr>
<tr>
<td>Dispatchable Hydro</td>
<td>508</td>
<td>7.12</td>
</tr>
<tr>
<td>Peat</td>
<td>345.6</td>
<td>4.84</td>
</tr>
<tr>
<td>Partially/ Non-dispatchable*</td>
<td>1132</td>
<td>15.87</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7135.1</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

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

The table indicates that gas, coal and oil are the primary fuels by installed capacity (accounting for over 70% of installed capacity and over 80% 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 2.0 below):

Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) plans

Division: All Island Markets with input from Energy Networks Division Networks

In November 2004, the Department of Enterprise, Trade and Investment (DETI) and the Department of Communications, Marine and Natural Resources together with the NIAUR and the CER published a Development Framework for an All Island Energy Market.
Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) plans

During 2007 CER and NIAUR completed the first phase of the project as set out in the Framework Document - the establishment of an all-island wholesale electricity market, known as the Single Electricity Market (SEM).

SEM Background
The SEM consists of a gross pool market, into which all electricity generated or imported onto the island of Ireland must be sold, and from which all wholesale electricity for consumption or export from the island of Ireland must be purchased.

The SEM high-level design was completed in June 2005 and on foot of this the CER and NIAUR (the Regulatory Authorities), set to work on the implementation of a whole suite of arrangements necessary for SEM Go Live by 1 November 2007. This involved:

- Working with DETI and DCENR in developing the legislative framework under the aegis of which the SEM operates;
- Developing the market rules in the form of a bespoke SEM Trading and Settlement Code in conjunction with industry participants, the Market Operator and the System Operators;
- Putting in place a suite of harmonised arrangements around networks, metering, renewables and retail market interactions that form an integral part of the SEM;
- Developing a comprehensive market power mitigation strategy;
- Putting in place the necessary contractual and licensing arrangements in each jurisdiction.

HOW MISSION SEM WAS ACCOMPLISHED:

Legislative Framework
In 2007, the Regulatory Authorities, in cooperation with government departments in Ireland and Northern Ireland, finalised drafting on several pieces of legislation required to underpin the SEM in both jurisdictions - the Electricity Regulation (Amendment) (Single Electricity Market) Act 2007 in Ireland and the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 in Northern Ireland.

The main SEM legislative provisions are as follows:

- The establishment of the SEM Committee – the decision making authority on all SEM matters;
- Provisions of specific powers for a Single Electricity Market Operator Licence to be issued to a market operator tasked with administering trading and settlement in the pool market;
- Arrangements and agreements relating to connection to and use of the All-Island transmission networks;

4. Department of Communications, Energy and Natural Resources since July 2007
Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) plans

- The objectives and functions of the Commission, the SEM Committee and the two governments in relation to the Single Electricity Market including the protection of the interests of consumers of electricity in Ireland and Northern Ireland and the promotion of the use of energy from renewable energy sources;

- Regulations establishing and designating a SEM Trading and Settlement Code setting out the market rules and procedures for the electricity trading and settlement system.

**Market Rules – SEM Trading and Settlement Code**

The SEM Trading and Settlement Code (TSC) sets out the rules and procedures concerning the sale and purchase of wholesale electricity in Ireland and Northern Ireland commencing from the implementation of the SEM.

The TSC was designated by the Regulatory Authorities on 3 July with most of the provisions coming into effect at SEM Go-Live on 1 November. Suppliers and Generators above 10MW are required by licence to accede to and comply with the TSC, which provides for:

| A gross mandatory pool (“the pool”), through which all electricity transmitted or distributed is traded; |
| A single system marginal price (SMP) that is set for each trading period, based on a market schedule that is unconstrained by transmission limitations; |
| All suppliers trading in the pool to purchase electricity at the SMP and all generators trading in the pool to be paid the SMP for electricity generation scheduled in the market schedule; |
| A system of central commitment as provided for in the grid code, with generators dispatched on the basis of offers submitted; |
| A requirement for generators, with respect to each individual generator unit, to submit offers for each trading day; |
| The collection and distribution of payments for capacity based on a fixed amount determined annually; |
| The collection and distribution of payments for the compensation of a generator where one or more of its generator units are subject to a transmission system constraint; |
| The amending of its own terms through modification proposals and the resolution of disputes between parties to the TSC by a dispute resolution board. |

**Capacity Payments**

The Regulatory Authorities designed a tailor made Capacity Payments Mechanism (CPM) for the SEM, which attaches a value to the provision of capacity by generators within the market. Taken together, the SMP and the CPM, reward generators for the value of energy and capacity. This Capacity Payment Mechanism was developed with a view to ensuring the reliability of the system, giving some degree of price and revenue stability and sending efficient signals to the market for long term investment.

Under the Capacity Payments Mechanism, capacity payments are made in respect of generators based on a measure of their availability. These payments depend on a fixed amount of cash – known as the “Annual Pot” - determined by the Regulatory Authorities each year. This is based, in terms of price, upon the fixed costs of a best new entrant peaking plant and, in terms of volume, on the capacity required to meet the (all-island) security standard of the system. Capacity Payments to generators are funded by Capacity Charges, which are levied on Suppliers based upon their electricity purchases.
Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) plans

Harmonisation
In order to pave the way for an effective transition from the previous bilateral markets in Ireland and Northern Ireland to the all-island SEM, substantial work was carried out by the Regulatory Authorities across a wide range of work steams dealing with:

- the harmonisation of transmission issues;
- updating and bringing licensing arrangements into line with the SEM market rules, and
- harmonising metering and renewable issues.

In the area of transmission networks, work included:

- the development of all-island transmission loss adjustment factors,
- substantial progress towards harmonised Grid Codes, and
- progress towards a harmonised transmission use of system (TUoS) charging policy.

Furthermore, the Regulatory Authorities managed the SEM Implementation of Metered Data Reading, Aggregation, Communication and Storage (SIMDRACS) project which has ensured that the relevant wholesale metered data communications are in place to facilitate settlement of the SEM.

SEMO Establishment, Revenue and Tariffs
The SEM design also required that a Single Electricity Market Operator (SEMO) be put in place to schedule the market, settle energy payments and administer other market related cash-flows. Accordingly SEMO, a contractual joint venture between the System Operator of Northern Ireland (SONI) and EirGrid, was established prior to the commencement of market trials in July 2007 and in advance of SEM Go-Live on 1 November 2007.

The establishment of the SEMO was carried out under the supervision of the Regulatory Authorities, and an important part of the Regulatory Authorities’ role in this regard was the setting of a SEMO revenue control. This allowed the SEMO to recover both its own administrative costs and other market related costs as required under the SEM Trading and Settlement Code. These costs include those associated with settlement systems and the dispatching of generators away from their scheduled output, known as constraints costs.

MARKET POWER MITIGATION

Market Power Definition:
The ability of a market participant, acting independently, to raise market prices consistently and profitably above competitive levels for a sustained period of time.

As part of the development of the SEM the Regulatory Authorities developed a robust market power mitigation strategy to prevent market power being abused or distorting the SEM. The major focus of this strategy comprised the imposition of Directed Contracts on generators with significant market power, the imposition on generators of licence conditions to adhere to a Bidding Code of Practice and the setting up of a bespoke Market Monitoring Unit to monitor participants bidding behaviour. For the first year of operation, only ESB Power Generation was required to offer Directed Contracts.

Figure 4.0 details the market share by installed capacity in the SEM at the end of 2007.

![All Ireland Market Share by Capacity](chart.png)
Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) plans

What are Directed Contracts?
Directed Contracts form a cornerstone of the market power mitigation strategy in the SEM. These contracts (to be in the form of Contracts for Difference at a regulated price based on the Regulatory Authorities’ forecast of spot market prices in a market absent of any market power) mitigate market power by reducing the incentives for the market participants to submit bids above competitive levels, or otherwise withhold capacity, in order to influence current spot prices or future contract prices. The Regulatory Authorities direct generators with market power to offer a portion of their output as Directed Contracts to all suppliers who wish to avail of it.

Analysis carried out by the Regulatory Authorities concluded that ESB Power Generation (ESB PG) were required to offer a suite of directed contracts to all eligible suppliers in the market for the first tariff year. The prices of these contracts were determined largely by forward fuel prices and a pricing formula established by the Regulatory Authorities. Suppliers were then able to bid the volume of MWs they required during the directed contracts auctions held in June and July 2007. The entire volumes of directed contracts were sold during the auctions and therefore fulfilling this element of the market power mitigation strategy.

Bidding Principles
As another key element of the market power mitigation strategy, the Regulatory Authorities drew up and consulted on a set of Bidding Principles and a Bidding Code of Practice for generators bidding into the SEM. As part of this, market participants must adhere to principles that price bids be submitted to the Single Market Operator (SEMO) at Short Run Marginal Cost (SRMC). This requirement to bid SRMC is reflected in a condition in all electricity licences in both Northern Ireland and Ireland.

JOINT REGULATORY ARRANGEMENTS AND THE EARLY DAYS OF THE MARKET

SEM Committee and Joint Regulatory Arrangements
Key to the operation and decision making of the SEM are the Joint Regulatory Arrangements between CER and NIAUR that have been enshrined in legislation in both jurisdictions. Prior to SEM Go-Live, the SEM Committee Members were appointed by the CER, NIAUR and both governments as appropriate. On the introduction of the SEM, the SEM Committee was established as a Committee of both CER and NIAUR (together the Regulatory Authorities) tasked with taking decisions on SEM matters on behalf of the Regulatory Authorities. The SEM Committee has three voting parties consisting of the following:

- Up to 3 CER SEM Committee members – current members are Tom Reeves and Michael G. Tutty,
- Up to 3 NIAUR SEM Committee voting members – current members are Iain Osborne, Dermot MacCann and Alan Rainey,
- An Independent SEM Committee Member; Ignacio Perez Arriaga, supported by a Deputy Independent SEM Committee Member, Jose Sierra.

José Sierra
Ignacio Perez Arriaga
Implement Single Electricity Market (SEM) and develop further All Island Energy Market (AIP) plans

Operating under the SEM Committee itself is the SEM Oversight Committee which has delegated authority for decisions of the SEM Committee on non-policy matters. This Committee is tasked with the Oversight and the implementation of SEM Committee policy decisions as well as supervising management of all SEM Committee operational matters by the Joint Management Units.

There are four Joint Management Units with responsibility for; the Trading and Settlement Code, the Market Monitoring Unit, the Market Modelling Group and Market Operator Regulation. Each unit reports into the Oversight and SEM Committees, implement their respective decisions and are charged with the day to day supervision of the Single Electricity Market.

Functions of the Joint Management Units

1. **Trading and Settlement Code Management**

   Since the Trading and Settlement Code (TSC) (and its Agreed Procedures) was designated by the Regulatory Authorities on 3 July 2007, it can now only be amended through the modification processes as set out in the TSC. The Regulatory Authorities play a key role in the supervision and as the ultimate arbiter over modifications to the SEM market rules.

   The Trading and Settlement Code Unit in the Regulatory Authorities has, since 1 November been operating under the auspices of the SEM Committee. This Unit has delegated authority from the SEM Committee to make final decisions on the approval, amending or rejection of non-policy changing modifications to the TSC (policy changing modifications are determined by the SEM Committee) as proposed by the SEM TSC Modifications Committee. The Unit also supervises the development of the TSC from a Regulatory perspective and represents the SEM Committee on the Modifications Committee. The TSC Unit focuses on the following areas:

   - Review of TSC Modification recommendation & approval/ rejection;
   - Oversight of TSC ongoing development;
   - Policy formulation in respect of TSC deficiencies;
   - Annual approval of TSC Parameters;
   - Oversight of Market Audit;
   - Setting of Regulatory TSC parameters such as the Market Price Cap and Floor, and the annual Capacity Payments “Pot”
2. Market Modelling Group

As part of the introduction of the new all-island market, a new unit dedicated to modelling the wholesale market was established within the Regulatory Authorities (RAs). This unit is based in the offices of the CER and provides forecasts of wholesale prices and other data to support the work of both Regulatory Authorities. The work of the Market Modelling Group (MMG) includes:

- implementing the Directed Contracts process;
- providing pool price estimates needed in determining the Public Service Obligation (PSO) levy;
- setting the reserve price in the PSO auctions;
- assisting the retail division of the CER when analysing the tariffs of ESB Customer Supply;
- modelling for the capacity payment mechanism.

In addition to the above work streams the MMG provides modelling support to the Market Monitoring Unit (MMU), based in NIAUR, and any other modelling requirements that the RAs may have when formulating policy.

3. Market Monitoring Unit

The Market Monitoring Unit (MMU) is one of the four SEM Joint Management Units (JMU) and is key to SEM market power strategy. The group is based in NIAUR with its work focused on spot market operation, including:

- monitoring the SEM on an ongoing basis, determining how prices are being set and whether at a level expected in an effectively competitive market;
- conducting investigations as appropriate into behaviour or events initiated by itself or by complaints from market participants;
- ensuring that all participants comply with published Bidding Code of Practice (AIP/SEM/07/430);
- publishing quarterly market assessments;
- making recommendations to SEM Committee and Oversight Committee.

4. Market Operator (and System Operator) Regulation

This Unit, run out of NIAUR offices, deals with Market Operator tariff setting and revenue review, Market Operator licence compliance, Modifications Committee issues relating to Market Operator costs and the systems development of the Market Operator. The Regulatory Authorities are responsible for the regulation of their respective jurisdictional System Operator.
Implement Single Electricity Market (SEM) and develop further
All Island Energy Market (AIP) plans

SEM Continuing Development
The CER and NIAUR have now moved towards the
continuing governance of the market and ensuring the
benefits of the market are fully realised. It is important
that the ongoing development of the market is given
the priority it deserves. As such, SEM Continuing
Development has been identified as one of the
Commissions Ten Key Tasks for 2008. (cer/08/020)
Complete Bord Gáis Networks and Supply Five Year Revenue Reviews (2007–2012)

Division: Energy Networks

Gas Transmission and Distribution
In 2007, the Commission completed a detailed 5 year revenue review of Bord Gáis Networks (BGN) transmission and distribution businesses. This comprehensive review included an examination of network operations and operational costs which BGN will face over the period 2007/08 – 2011/12 as well as an analysis of their investment proposals over the next five years. Ensuring a sufficient level of investment in the gas networks is maintained to support increasing demand and economic growth was one of the key objectives of the review.
Complete Bord Gáis Networks and Supply Five Year Revenue Reviews (2007–2012)

The Commission’s review led to a 7% reduction (over €210m) of BGN’s proposed costs for the five year period. The decision resulted in an average decrease in the transmission and distribution tariffs of over 11% and over 1% respectively from 2006/7 levels. Transmission & Distribution costs combined make up approximately 40% of the final end user tariff (2007/8 tariff).

Some of the key highlights of the revenue review decision which will be implemented over the 5 year control period are listed below:

- The connection of 150,000 new gas customers and the addition of 1,500km of mains to the network;
- Implementation of a metering strategy to improve meter data quality and customer billing;
- Replace the remaining cast iron network with polyethylene pipes by 2009;
- Roll-out pre-payment metering availability country wide (currently only available in Dublin);
- Continue to meet the emergency response and safety standards;
- The smooth addition of the entry points at Corrib and potentially Shannon LNG;

The stable development of the gas market in Ireland is a cornerstone of securing future economic development. 46% of our electricity was generated from natural gas in 2007, with approximately 550,000 homes connected to gas and 20,000 businesses using gas in 2006. Revenue reviews also include a mechanism whereby the Commission reviews performance of BGN on an annual basis against the targets set.

Bord Gáis Revenue Review decision papers can be viewed on the Commission’s website, www.cer.ie (CER/07/110 & CER/07/111)

Figure 5.0 below indicates gas demand in Ireland since 1998 as outlined in the Gas Capacity Statement 2007.
Gas Supply

The Commission also conducted a review of the regulatory regime applicable to Bord Gáis Energy Supply’s (BGS) Non-Daily Metered (NDM) business. The previous revenue control formula (RCF), effective from the 2004/05 gas year and lasting for three years, was the first price control that CER set for BGS’s regulated natural gas supply business.

With the end of the previous revenue period approaching, and in light of the Irish natural gas supply market opening to competition fully in July 2007, the Commission undertook the five year review.

Based on an extensive qualitative and quantitative assessment, as well as consultative engagement with stakeholders, the Commission decided upon the following for the 2007/08 to 2011/12 revenue period:

- An approach during 2007/08 where the current revenue control formula RCF remains in effect, with the exceptions of a supply cost rebasing and adjustment in allowable margin;
- An approach during the remaining four years of the revenue period in which a laddered-approach benchmark index will largely determine BGS’s allowed cost of gas and provide price transparency and incentive for all suppliers in the Irish NDM segment;
- Partial acceptance by BGS of the risks associated with year-on-year correction factors for mismatches between BGS’s allowed costs and the revenues they collect during any given gas year. A portion of this risk acceptance involves some acceptance of deviations between projected and actual monthly volumes demanded;
- In return for this risk acceptance BGS will enjoy an increased allowable margin.

For more information regarding the five year revenue review please refer to the following Commission publications: CER/07/101, 129 and 158.

RELATED WORK ITEMS

Full Gas Market Opening

The Irish gas market opened to full competition on 1 July 2007. There are currently two suppliers in the domestic market. The Gas Market Advisory Retail Group (GMARG) is an autonomous industry body chaired by the Commission formed to provide guidance to, and consistency between, the development and the implementation phases of full market opening in the gas retail market.

The Commission has successfully put in place all the necessary processes and market rules to allow suppliers enter the gas market and to allow any customer switch their gas supplier. However, the Commission will continue to build on the success of 2007 and will work through GMARG to further develop and improve the retail market in 2008.

Two projects due to be delivered in 2008 are the national roll-out of pre-payment meters and the Gas MaP (Messaging and Processes) Project. The Commission’s decision on pre-payment meters° provides for pre-payment meters to be made available nationally to all customers in the open market. A significant body of work was undertaken in 2007 in defining the requirements for the pre-payment meters and the systems to support a multi-shopper environment. This work will continue in 2008 towards the go-live date of Q4 2008.

The Gas MaP Project was initiated in 2006 through the GMARG to develop a Market Messaging IT system for the gas market. This project completes the business separation between Bord Gáis Networks (BGN) and Bord Gáis Energy Supply (BGES). Gas MaP will allow better processing of information and requests between Suppliers and BGN, ultimately improving service to customers. There are four stages of the project:

°. CER/06/157
Complete Bord Gáis Networks and Supply Five Year Revenue Reviews (2007–2012)

1. definition of market processes and technological evaluation,
2. detailed system design,
3. system construction, and,
4. system transition.

The first stage was completed in September 2006 and the second stage completed in 2007. The Gas Map project is due to be completed by the fourth quarter of 2008.

Gas Capacity Statement 2007

In July 2007 the Commission published its fifth annual 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 2014. These charts are taken from the 2007 Gas Capacity Statement and projections made in 2007 under the “Central Demand Scenario” are analysed.

Figure 6.0: Annual Gas Demand Forecast for Residential Sector
The results of the 2007 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 report also concluded that the Irish market is becoming increasingly affected by changes to the gas markets outside of Ireland and that continued close attention needs to be paid to the UK gas transmission reforms which may have an impact on Irish security of supply. Please refer to Key Task No. 8 for further information on this area.

**Extension of Gas Network**

The Commission was pleased to announce in early October 2007, a further six towns to be connected to the natural gas network over the coming years. These towns are, Gort and Loughrea in Co. Galway, Ballinrobe in Co. Mayo, Cahir and Cashel in Tipperary and Monasterevin in Co. Kildare. The towns were selected as part of phase 2 of the New Towns Analysis and are in addition to the 11 towns currently being connected as part of phase 1.

The announcement follows a detailed study carried out by Bord Gáis Networks (BGN) on phase 2 of the New Towns Analysis. The six towns were selected after an economic analysis of the viability of their connection to the gas network. Connection to the gas network will bring greater energy choice to existing consumers in the selected areas and also provide an incentive for future investment in these areas.

BGN’s Report on Phase 2 of the New Towns Analysis sets out the background, terms of reference, criteria and methodology employed when analysing the feasibility of connecting towns throughout the country. The report also identifies the towns to be evaluated as part of Phase 3 of the study.

Full details of the New Towns Analysis — Phase 2 report can be found on Bord Gáis website; www.bordgais.ie/networks

---

6. Athenry, Craughwell, Headford and Tuam, Co. Galway and, Ballina, Ballyhaunis, Castlebar, Claremorris, Crossmolina, Knock and Westport, Co. Mayo

Figure 7.0: Annual Gas Demand Forecast for Industrial and Commercial Sector.

![Annual Gas Demand Forecast](image-url)
Implement Customer Care Plan

Division: Environment, Retail and Consumer Affairs

**Customer Affairs**
The Commission commenced the establishment of a dedicated Customer Affairs Team in late 2006.
Implement Customer Care Plan

Under Statutory Instrument 60 of 2005 and Statutory Instrument 452 of 2004 the Commission was given responsibility for resolving disputes for consumers in the electricity and gas markets and for ensuring a high standard of protection for final customers in their dealings with licenced suppliers. Significant progress was made during the year towards full establishment of this function.

Under S.I 452 the Commission is required to publish an Annual Customer Affairs Report. Full details of the work carried out by the CER’s Customer Affairs Team during 2007 can be found in the Commission’s first Customer Affairs Team (CAT) Annual Report 2007 in Appendix B.
Key Task

5

Arrange for the design and launch of a competition for an East-West electricity interconnector

Division: Environment, Retail and Consumer Affairs

The Commission has been involved in actively promoting the development of an electricity interconnector between Ireland and Britain for a number of years. In 2006 the Government confirmed its support for this project and requested that the Commission arrange the design of a competition to secure the construction of a 500 MW undersea interconnector to be in operation at the earliest possible date prior to 2012.
Arrange for the design and launch of a competition for an East-West electricity interconnector

Increasing levels of interconnection is essential to increase security of supply on the island and also to further the development of competition in the Irish electricity market. The interconnector may also facilitate the expansion of Ireland’s indigenous renewable energy portfolio and is consistent with European policy towards the development of regional and more integrated electricity markets.

The Commission and EirGrid are working closely together to ensure the completion of this project. The Commission has appointed a project manager for the interconnector competition and EirGrid have appointed a project manager for the day-to-day running of the project. The main items of work in 2007 included:

- An integrated route report evaluated possible interconnector routes and the preferred route (Woodland, Ireland to Deeside, UK) was approved by the Commission in July 2007;
- EirGrid acquired connection offers for connection to the British transmission system;
- The Commission reserved capacity for connection to the Irish system;
- The competition design was finalised and in December 2007 an Invitation to Negotiate document was released by EirGrid to a panel of preferred tenderers, identified as part of the competition design phase of the project;
- A geotechnical and geophysical marine survey of the Irish Sea commenced in December 2007;
- Preparatory planning work has been carried out to secure the over-land section of the interconnector route.

The advancement of this project remains a key priority for the Commission into 2008 where a candidate will be secured for the construction of the interconnector at the earliest possible date prior to 2012.

In addition to the East-West interconnector, the Commission is aware of plans by Imera Power to develop interconnection between Ireland and Britain and will monitor this project as it develops and deal with applications for authorisations and exemptions as appropriate.

Table 4.0 East-West Interconnector Features

<table>
<thead>
<tr>
<th>East-West Interconnector Feature</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity</td>
<td>500 MW</td>
</tr>
<tr>
<td>Ownership</td>
<td>EirGrid plc</td>
</tr>
<tr>
<td>Delivery date</td>
<td>End 2011</td>
</tr>
<tr>
<td>Connection Point on Irish System</td>
<td>Woodlands sub-station, south Meath.</td>
</tr>
<tr>
<td>Next Step</td>
<td>Competition for design and construction of an interconnector</td>
</tr>
</tbody>
</table>
Review and approve electricity and gas prices for 2008

Division: Environment, Retail and Consumer Affairs

Electricity Tariffs
ESB Customer Supply (ESBCS) offers regulated tariffs to customers who do not purchase electricity from an independent supplier. These tariffs reflect the costs incurred in 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 costs in each of these areas.
Review and approve electricity and gas prices for 2008

The outcome of the Commission’s tariff review for 2008 was a 6.1% on average decrease in the price of electricity charged to end users for the period 1 November 2007 – 30 September 2008. As a result consumers can enjoy a reduction of approximately €50 in the average household annual bill. The decrease was largely driven by a reduction in international fuel prices, in particular gas, during 2007.

Table 5.0: ESBCS Tariff 2008 Average decrease by tariff category

<table>
<thead>
<tr>
<th>ESB PES Tariff Categories</th>
<th>Average PES Tariff Decrease (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>5.4</td>
</tr>
<tr>
<td>Non-Domestic General Purpose</td>
<td>4.4</td>
</tr>
<tr>
<td>Low Voltage Maximum Demand</td>
<td>6.4</td>
</tr>
<tr>
<td>Overall Average</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Note: Large Energy User (LEU) Customers comprise those connected to 10kV (MV), 38kV and 110kV. ESB PES replaced the published tariffs for these customers with a pool price pass through and charges those customers supplied by PES the actual costs incurred in procuring supplies of electricity from the Pool to meet their demands.

COMPONENTS OF END USER ELECTRICITY TARIFFS

Transmission Revenue/Tariffs

Following public consultation, in October 2007 the Commission determined the allowed revenue for the electricity transmission business, along with associated transmission use of system (TUoS) tariffs for the period from 1 November 2007 to 30 September 2008.

The key features of the Commission’s determination are as follows:

- The allowed revenue for the transmission business covers the costs of operating, maintaining and building an efficient and modern transmission service, with EirGrid as the Transmission System Operator (TSO) and ESB Networks as Transmission Asset Owner (TAO). This includes a €520 million transmission capital investment programme allowed for the period from 2006 to 2010. This will help ensure that Ireland has adequate transmission infrastructure to meet the growing demand for electricity;

- The approved transmission revenue for 2008 and associated average TUoS charge are shown in table 6.0. The main reason for the decrease is due to:
  
  (a) the removal of constraint costs from the transmission revenue from 1st November 2007, to be financed through the new all-island Single Market Operator (SMO) charges; and,

  (b) The additional income received in 2007 from North-South interconnector receipts.

Table 6.0: Approved Transmission revenue 2008

<table>
<thead>
<tr>
<th>Nominal Prices</th>
<th>2007 €m</th>
<th>2008 €m</th>
<th>Change €m</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transmission Revenue €m, (TSO &amp; TAO)</td>
<td>291.9</td>
<td>228.4</td>
<td>-63.5</td>
<td>-21.7%</td>
</tr>
<tr>
<td>Average TUoS Tariff Cent Per kWh</td>
<td>1.073</td>
<td>0.801</td>
<td>-0.272</td>
<td>-25.4%</td>
</tr>
</tbody>
</table>

Electricity Distribution

In October 2007 the Commission published its determination on the Distribution System Operator’s allowed revenue for the 11 month period from 1 November 2007 to 30 September 2008.

The key features of this determination are as follows:

- Allowed revenue for the Distribution System Operator was set to €627.2m for the 11 month period from 1 November 2007 to 30 September 2008. This is a demand weighted average of 2007 and 2008 allowed revenues.

- This level of revenue led to Distribution Use of System (DUoS) tariffs that are 3.2% higher in nominal terms relative to the previous DUOS tariffs. For details please see: Determination of Distribution Allowed Revenues

7. CER/07
8. CER/07/186
and Use of System Tariffs for ESB Networks, Decision Paper. The Commission also approved and published the following documents in 2007 covering charges for the use of the distribution system:

- ESB Networks’ schedule of standard prices for generators;
- ESB Networks’ commercial charges for distribution services, third party damage and additional services to Use of System;
- ESB Networks’ ongoing operation and maintenance costs for generators.

GAS SUPPLY TARIFFS

In September 2007, the Commission approved an average reduction of 10.6% in Bord Gáis Energy Supply’s tariffs to residential customers and industrial or commercial sites with consumption levels below the Fuel Variation Tariff threshold. This decrease came into effect on 1st October and was the second fall in consumer prices in 2007 following a 10% reduction applicable from February 2007.

The reduction in gas prices during 2007 was attributable to two key factors: the reduction in wholesale gas prices which occurred through much of the year, and a significant reduction in gas network costs as a result of the Commission’s five year review of Bord Gáis Networks’ revenues. Upon completion of this review, transportation and distribution tariffs were down by 11% and over 1% respectively for the 2007/08 gas year. Network costs for 2007/08 comprise around 42% of the average final end user gas price.

Further information related to the gas supply tariff changes made during 2007 can be found in Commission publications: CER/06/251, 07/100 and 07/130.

Gas Supply Tariff Restructuring

Arising from the CER’s competition in gas supply review initiated in early 2006 and highlighted below, the Commission restructured the tariffs for domestic and smaller industrial and commercial (I&C) customers with effect from 1 October 2007. The premise for this restructuring was simplicity and value-for-money for consumers, and increased wholesale cost reflectivity. Increased cost reflectivity will ensure that each customer only pays, where possible, for the costs that they are imposing on the gas system. These costs include the actual costs of the gas itself, transportation costs, costs associated with connection to the gas network as well as administration and IT costs. A key aspect of this restructuring was a significant drop in the level of residential standing charges: the Commission directed the standing charge of €308.58 per annum paid by the average customer be reduced to €56.75 per annum.

The Commission’s decision on tariff structures also replaced the six former domestic tariff rates with four new tariffs and redefined the rates for small and medium-sized NDM business customers. BGS’s residential customers are now offered the following tariffs:

- “Standard Rate”;
- “No Standing Charge Rate”;
- “Winter Saver Rate” tariff;  
- “Large User Residential Rate”.

The “Large User Residential Rate” applies to a small amount of the largest residential customers. Non Daily Metered (NDM) industrial and commercial customers not eligible for the Fuel Variation Tariff are eligible for either the “Small Business User” or “Medium Business User” tariff.

The Commission also published a decision on competition in Gas Supply in October 2007 which introduced the Fuel Variation Tariff (FVT) for approximately 1,600 NDM industrial and commercial (I&C) customers effective from 1 October 2007. The FVT provides a transparent mechanism of pricing to I&C customers, thereby creating a clear target for competing suppliers. It also provides an opportunity for FVT customers to choose a tariff that is suited to their individual needs. The FVT’s pricing options afford customers the chance to align their tariffs with movements in the wholesale price of gas, or if preferable, provide a more consistent level of budgetary certainty through longer-term pricing options.
Review and approve electricity and gas prices for 2008

Further details regarding gas supply tariff restructuring can be found in Commission publications: CER/07/45, 74, 97, and 105.

**Review of Competition in Gas Supply**

In October 2007, the Commission completed its review of competition in the natural gas supply market and published its decision on Competition in Gas Supply CER/07/126 relating to two previous phases of the review undertaken during 2006. The decision document considered the comments of interested parties on eight preferred measures detailed in consultation paper CER/07/023. The Commission provided a rationale behind each decision related to these eight initiatives.

Tariff restructuring, correction factor reductions and improved shipper access to short term capacity and interconnector inventory products were highlighted during the review and favourably supported by the Commission’s competition in gas supply decision as well as in related decisions during 2007. Although the formal review ended with the publication of the decision paper, the Commission will continue to monitor the effectiveness of these decisions as well as the feasibility of the other measures raised during the review.

9. CER/07/092
10. CER/07/089 & 090
11. CER/07/136
12. The Fuel Variation Tariff applies to any BGS industrial or commercial NDM customer whose supply point capacity is greater than 3,750kWh.
13. CER/07/105
14. CER/07/126
Implement Gate 2 policy and consider next steps

Division: Electricity Networks and Retail

The Commission introduced a group processing regime for all renewable generator connection applications in April 2005. This regime allows for a number of ‘Gates’ through which renewable applications can be processed and has proven to be a far more efficient way of dealing with the increasing volume of such applications wishing to connect to the Transmission and Distribution Networks. By the end of 2007 there had been 2 Gates; Gate 1 resulted in 380 MW of renewable generation receiving connection offers, Gate 2 is described below.
Implement Gate 2 policy and consider next steps

Gate 2
The Commission’s Gate 2 direction of 2006 provided for connection offers to be issued by the system operators to over 120 renewable generation projects, equivalent in capacity to over 1,300 MW, almost all of which is from wind power. Gate 2 therefore provides the opportunity to dramatically increase the amount of wind generation that will be connected in Ireland over the coming years. In February 2007 the Commission published a paper approving the estimated timeline for the issuance of Gate 2 connection offers by the system operators. The Commission monitored the system operators in this regard during the year. Connection offers commenced rolling out to the Gate 2 projects in May 2007. To date, 103 connection offers have been issued to Gate 2 projects. The System Operators expect to issue the remaining offers by the end of August 2008.

The Commission also published in February 2007 a paper, prepared by the system operators, which explains the charging regime that applies to renewable generators connecting to the network in Gate 2 (and beyond) of the Group Processing Approach to connection.

Gate 3 Consultation Paper
In December 2007 the Commission published a Consultation Paper on Gate 3 of the regime for the connection of renewable generators to the network. This Paper included, for public comment, three possible options for the criteria to be used in deciding which renewable generators are eligible for a connection offer in Gate 3. This was consistent with the Commission’s Key Task 7 for 2007 which was to consider the next steps in the connection of renewable generators. Following consideration of comments received the Commission will decide on Gate 3 in 2008.

By the end of 2007 there was over 800MW of renewable generation connected to the electricity system. At the present rate of connections we are well on our way to meeting the Government’s targets of 15% of electricity consumption from renewable sources by 2010.

Connection Issues
During the year the Commission issued directions to EirGrid to process for connection a number of proposed “conventional” generating plants that interact with renewables, as follows;

- Two 70 MW pumped storage plants in Co. Cork, which the Commission directed be processed in Gate 2;
- A 445 MW combine cycle gas turbine plant from the Quinn Group in Co. Louth; and,

This was on the basis of the public/system benefits that these plants would provide, such as security of electricity supply, output flexibility (which facilitates increasing amounts of wind on the network) and competition, and that they were not considered to have a disproportionate impact on renewable generators.

RELATED WORK ITEMS

Area: Renewables and the Environment
The Renewables and Environment Team also completed a number of work items in the areas of Public Service Obligation (PSO) Levy, Fuel Mix disclosure, and Microgeneration which support the key objectives of the Gate processing regime; that is to encourage and foster growth in renewable generation in the Irish electricity sector, while maintaining competitive and secure supplies.

Public Service Obligation 2008
In July 2007, the Commission published its decision paper on the PSO charges applicable for 2008. The PSO levy is charged to all electricity customers and is designed to recoup the additional costs incurred by ESB Customer Supply in meeting its obligation to purchase electricity from specified sources, including sustainable, renewable and indigenous sources.
The total amount of the estimated additional costs recoverable via the 2008 PSO levy was €1,891,436 compared to the 2007 figure of €2,786,166. In consideration of the level of costs to be recovered via the PSO levy in 2008 and the resultant very low levy when divided over 2 million customers, the Commission decided that the 2008 levy would be set to zero. This was 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 2009 allowed PSO costs which will be calculated in mid 2008.

Fuel Mix Disclosure and Environmental Impact Figures
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.

Table 8.0 outlines each of the main electricity supplier’s fuel mix figures listed by fuel type for 2006. Ireland’s average fuel mix figures for 2006 are also listed.

In Ireland the average CO2 emissions per kilo-Watt hour (kWh) in 2006 was 0.549kg per KWh or 549kg per MWh.

Microgeneration
In November 2007, the Commission published a decision paper on microgeneration, Arrangements for Microgeneration15. Guidelines on the process for informing the distribution system operator when connecting a microgenerator were outlined as were the technical specifications to be adhered to. The technical standards that apply to micro generation are those set out in European Standard EN50438. An “inform, consent and fit” process applies to the installation of micro generation. Owners must inform ESB Networks (ESBN) of any planned installation and follow a formal application process. An approved list or register of type approved micro generation units will be maintained by ESBN. Micro generators will be included as a priority group in the smart metering implementation programme.

Table 7.0: Electricity Supplier Fuel Mix by Fuel Type for 2006

<table>
<thead>
<tr>
<th>Supplier</th>
<th>CHP</th>
<th>Coal</th>
<th>Oil</th>
<th>Gas</th>
<th>Peat</th>
<th>Renewable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airtricity</td>
<td>1%</td>
<td>3%</td>
<td>1%</td>
<td>5%</td>
<td>1%</td>
<td>89%</td>
</tr>
<tr>
<td>BGES</td>
<td>1%</td>
<td>15%</td>
<td>7%</td>
<td>66%</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>CH Power</td>
<td>3%</td>
<td>10%</td>
<td>5%</td>
<td>18%</td>
<td>2%</td>
<td>62%</td>
</tr>
<tr>
<td>Energia</td>
<td>2%</td>
<td>12%</td>
<td>4%</td>
<td>76%</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>ESBCS</td>
<td>4%</td>
<td>27%</td>
<td>13%</td>
<td>36%</td>
<td>11%</td>
<td>9%</td>
</tr>
<tr>
<td>ESBIE</td>
<td>1%</td>
<td>9%</td>
<td>4%</td>
<td>82%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Average for Ireland</td>
<td>4%</td>
<td>19%</td>
<td>9%</td>
<td>50%</td>
<td>7%</td>
<td>11%</td>
</tr>
</tbody>
</table>

15. CER/07/208
Revised Licensing Procedure

In August, the Commission published a paper regarding the revised process for the authorisation and licensing of electricity generating stations. Generators with a capacity not exceeding 1 MW are deemed to be duly authorised and licensed by way of Orders issued pursuant to Section 14 (1)(a) and Section 16 (3) of the Electricity Regulation Act, 1999. Generators with a capacity of at least 1 MW but not exceeding 10 MW are required to apply to the Commission to stand duly authorised and licensed by way of Orders. Generators with a capacity of 10 MW or greater must also apply formally to be authorised and licensed by way of order but following the implementation of the Single Electricity Market it will no longer be routine for them to submit a power purchase agreement (PPA) since all output will be sold to the mandatory pool for this size of generation. However, information concerning the financial history of the developer, project planning and feasibility will still be required for this class of generator, as was the case previously.

Implement Gate 2 policy and consider next steps
Manage impact in Ireland of proposed reforms in UK gas transmission off take arrangements

Division: Energy Networks

**UK Transmission Exit Reforms**
In April 2007, Ofgem, the British regulator, published a decision to implement reforms to the UK’s National Transmission System Exit Regime in April 2008.
Manage impact in Ireland of proposed reforms in UK gas transmission offtake arrangements

The Commission worked with industry in Ireland, Northern Ireland, Isle of Man and the UK throughout 2007 to progress arrangements to alleviate the possible risks to each of the downstream gas markets associated with the proposed reforms. Following widespread consultation, the Commission favoured, in principle the establishment of a Single Party agency at Moffat to transact on behalf of downstream parties and to protect the downstream markets from the risks of market foreclosure and security of supply. This approach may require supporting legislation.

Under Section 173(3a) of the UK Energy Act 2004 relating to the right of appeal of decisions by regulators, Ofgem’s decision was appealed to the Competition Commission in the UK. In July 2007, through a public hearing process, the Competition Commission quashed Ofgem’s decision to implement reforms to the exit regime. Ofgem were directed by the Competition Commission to reconsider and further analyse the options available to reform the exit regime. It is as yet unknown how or when the exit reforms will be progressed. In the interim, the Commission is in communication with the Department for Business, Enterprise and Regulatory Reform (the UK Ministry responsible for regulatory matters) regarding a possible licence exemption16 if it is to be undertaken by Bord Gáis as it is currently. This will ensure that the required exemptions and authorisations are in place to facilitate the Single Party should the exit reforms proceed in the coming year.

RELATED WORK ITEMS
The CER also carried out work in the following areas related to Gas Transmission and Distribution throughout 2007.

Extension of firm capacity products
In October 2007, in compliance with European Regulation 1775/2005, BGN introduced two short-term firm capacity products and made them available to all categories of network users. The ‘monthly’ and ‘daily’ short-term firm capacity products were developed as part of the larger Code Modification Forum, which facilitated industry consultation on the principles, business rules and pricing of the products. The availability of these added products enhanced the flexibility of the gas network, allowing network users to vary their gas demands on an annual, monthly and daily basis.

The Commission and BGN have committed to extend the suite of capacity products available in 2008 and are currently drafting the arrangements for a ‘within-day’ firm capacity product and an ‘interruptible’ capacity product.

Task Force on Emergency Procedures
The Task Force on Emergency Procedures was established by the Commission in April 2005 to examine and report on the procedures to be followed in the event of an emergency on the gas and/or electricity networks. Further details are outlined under Key Task 1 (Page 10).

16. According to the UK Gas Act 1995, the holder of a transporter licence in the UK may not engage in licenced shipping activities in the UK. As it is currently envisaged, the Single Party will be required to engage in certain shipping activities in the UK on behalf of parties in the jurisdictions downstream of Moffat. Therefore, if Bord Gáis Networks is to be confirmed as the Single Party at Moffat, it will require an exemption from the requirement to hold a shippers licence for limited activities.
Key Task

Develop structures for implementing our safety responsibilities

Division: Operations, Generation and Safety

The Gas Safety and Electricity Safety teams were set up by the Commission in 2006. The teams are 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 (‘the 2006 Act’).
Develop structures for implementing our safety responsibilities

GAS SAFETY

Implementation of New Responsibilities for Gas Safety

Under the 2006 Act the Commission has the responsibility to regulate the activities of natural gas undertakings and natural gas installers with respect to safety. Throughout 2007 the Commission, through its Gas Safety Team, made significant progress with the design and development of the natural gas regulatory system. As required under the 2006 Act, the Commission will discharge this responsibility through the establishment and implementation of a natural gas safety regulatory framework (the ‘Framework’).

The Commission published the Framework in October 200717, following an extensive consultation process. The purpose of the Framework is to provide clarity and certainty to the gas industry and the general public on how the Framework will operate.

The overall strategic objective of the Framework is:

To ensure that adequate measures are taken to protect life and property from the dangers associated with natural gas by ensuring that gas related activities within the scope of the Commission’s responsibilities are carried out in a safe manner, which takes account of and mitigates against the risks associated with the storage, transportation, supply and use of gas.

The Commission, as safety regulator, will ensure that the Framework addresses the safety risks that arise from the activities of the various gas undertakings. The regulatory objectives of the Framework are developed to ensure that the identified safety risks are reduced to a level that is as low as reasonably practicable and that gas undertakings have suitable safety management systems in place for managing those risks.

The main components of the Framework comprise:

1. A Gas Safety Case regime, which applies a risk and outcomes based approach to the management of gas safety risks for each licensed undertaking;

2. A Gas Safety Supervisory Body responsible for the registration of gas installers that meet specified criteria of training and competency, and subsequently regulates gas installers via an ongoing inspection and audit regime of work against specified standards;

3. A Gas Safety Promotion and Public Awareness regime that is designed to increase the overall level of gas safety awareness amongst customers and the general public on gas safety matters based on coordinated and individual undertaking’s of safety promotional activity;

4. An Incident Reporting and Investigation regime that fulfils obligations for the reporting and investigation of incidents by Bord Gáis Networks, the reporting on the outcomes of incident investigations by Bord Gáis Networks to the Commission and subsequent reports by the Commission to the Minister. This will also include for incident reporting and investigation requirements by the operators of major accident hazard facilities—e.g. LNG and gas storage operators;

5. An Audit and Inspections regime that the Commission will use to gain assurance that the various undertakings are operating in compliance with the gas safety management and emergency response arrangements as described in their respective safety cases, and the Gas Safety Supervisory Body in accordance with its Terms and Conditions of Appointment;

6. A Gas Safety Reporting Framework that utilises a suite of gas safety performance indicators to monitor trends and provide assurance that the intended outcomes of the Framework are being achieved.

17. CER/07/172
Figure 9.0 on page 47 provides a conceptual illustration of the Framework.

The focus of the Gas Safety Team of the Commission in 2008 will be on full implementation of the Framework.

To this end, the Gas Safety Team undertook a considerable amount of preparation work in 2007 on a number of the key components of the Framework as set out below:

**Safety Case Guidelines**

The Commission published Safety Case Guidelines in December 2007 following a comprehensive consultation process. These Safety Case Guidelines have been prepared to assist gas undertakings in the development of their respective gas safety cases for submission to the Commission in Quarter 1, 2008.

**Regulation of Gas Installers**

Work in the area of gas safety has focused upon the development and implementation of the new regulatory system. To this end the Commission published a ‘Vision for the Regulation of Gas Installers with respect to Safety’, setting out the Commission’s decision on the design and operation for the new regulatory system.

This followed an extensive industry and public consultation process.

The ‘Vision Document’ sets out that the new regulatory model for gas installers will be operational from the 1st January 2009. In order to meet this deadline, the ‘Vision Document’ outlines a number of steps that the Commission will have to provide for in 2008, including providing for:

- Categories of gas works which may only be undertaken by individually registered installers;
- The effective operation of a Gas Safety Supervisory Body;
- Regulatory oversight of the Gas Safety Supervisory Body; and
- Gas safety promotion activity.

To achieve this deadline the Commission must complete a number of milestones through 2008:

- Develop and publish a Criteria Document which will prescribe the rules of operation of the new regulatory system and will specify the standard to which a registered natural gas installer must work;
- Designate a Gas Safety Supervisory Body;
- Decide upon the appropriate categories of Gas Works to designate;
- Publish the Membership Categories of Registered Natural Gas Installers in the regulatory system, their rights and responsibilities as natural gas installers, and the requirements placed upon them to maintain that status; and
- Determine the appropriate form of promotion to raise awareness of the importance in choosing a registered installer, getting gas works certified and the safety issues surrounding the use of natural gas and the maintenance of natural gas appliances and fittings.

---

18. CER/07/226
19. CER/07/225

Strategic Approach to Gas Safety Regulation
- Non-Prescriptive Approach
- Appropriate Regulation
- Relevant to a Liberalised Gas Market
- Risk and Outcomes Based
- Commission Role of Securing Compliance

Strategic Safety Objective
- "To Ensure the Protection of Life and Property"

Gas Safety Regulatory Objectives (KPI's)
- Minimising Risk of Loss of Containment
- Maintaining Safe System Operating Pressure
- Minimising the Risk of Injecting Gas of Non-Conforming Quality
- Providing and Efficient and Coordinated Response to Gas Emergencies
- Minimising the Safety risks Associated with the Utilisation of Gas
- Promoting Public Awareness of Gas Safety

Incident Investigation and Reporting to Minister

Gas Incident Investigation and Reporting Regime

Gas Safety Case Regime
- Safety Case Guidelines
- Facility Description
- Formal Safety Risk Assessment
- Safety Management System
- Emergency Procedures
- Safety Reporting Framework

Gas Safety Promotion and Public Awareness
- Coordinated Safety Advertising
- Promotion of Gas Safety
- Gas Safety Initiatives
- Gas Safety Forum

Gas Safety Supervisory Body
- Registration of Gas Installers
- Safety Inspectors & Audits
- Investigation of Complaints

Analysis of Safety Outcomes and Continual Improvement Process

CER Licensed Gas Entities

LNG Terminals
- Safety Case Guidelines

Storage Operators
- Safety Case Guidelines

Transmission
- Safety Case Guidelines

Distribution
- Safety Case Guidelines

Shipping & Supply
- Safety Case Guidelines

Major Emergency Plans and NEM Framework

Safety Reporting

Gas Industry Safety Reporting Regime
- Incident Reporting
- Participant Quarterly Report to Commission
- Commission Annual Report to Minister

Natural Gas Installers and Installationst

Audits and Inspections Regime

Natural Gas Safety Reporting
ELECTRICITY SAFETY

The Energy (Miscellaneous Provisions) Act 2006 (the 2006 Act) also provides for the establishment and implementation of a new system for the regulation of electrical contractors with respect to safety.

This new statutory-backed regulatory system will replace the current voluntary self-regulatory system, which has been subject to the Commission’s oversight since June 2004. This voluntary system has been operated by two self-regulatory bodies, namely ECSSA and RECIP, with the Commission having a limited supervisory role.

Implementation of New Responsibilities for Electrical Safety

Throughout 2007, the Commission, through its Electrical Safety Team, has focused upon the development and implementation of the new regulatory system. In doing so, the Commission has set about the development of the following:

- The ‘Vision Document’, setting out the Commission’s decision on the design and operation for the new regulatory system. Further to industry and public consultation, a decision paper was published in November 2007;

- The ‘Criteria Document’, setting out the detailed rules for the registration and regulation of electrical contractors. The Criteria Document also outlines, in detail, the rules and obligations placed upon any party appointed to act as an Electricity Safety Supervisory Body. This will also specify the rules and obligations placed upon electrical contractors to maintain registration with the appointed body. The Commission’s Criteria Document was published for consultation in December 2007;

- The development and implementation of a ‘Designation Process’ to appoint a party or parties to act as Electricity Safety Supervisory Bodies and to operate the day-to-day registration of electrical contractors. This process is expected to begin in early 2008.

The Commission has established the following high-level objective for the new regulatory system:

‘Provide for the safety interests of customers with respect to electrical installation activities through creating a suitable regulatory system which provides for electrical works to be carried out tested and certified in compliance with the appropriate technical rules and standards’

The Commission’s ‘Vision Document’ sets out the design of the framework for the regulation of electrical contractors concerning safety.

In its approach to the new regulatory system, and key to the development of the Vision Document, the Commission sought to build upon the strengths of the current self-regulatory system in place.

The Vision Document also set out the key elements of the new model, which included the following:
Develop structures for implementing our safety responsibilities

1. Electrical works will be required to conform with the standard prescribed by the Commission – the Electro Technical Council of Ireland National Wiring Rules;

2. Certain works will require a Completion Certificate (“Controlled Works”);

3. Only Registered Electrical Contractors will be entitled to self-certify (issue Completion Certificates for their work);

4. The requirements for registration will be prescribed (and will relate to training, competence and other requirements, such as insurance);

5. The Commission will appoint a Body or Bodies to act as Electrical Safety Supervisory Bodies who will be responsible for the operation and management of registration, monitoring, audit and inspection of electrical contractors together with other duties (relating to dealing with complaints from the public, public awareness campaigns, etc.).

In December 2007, the Commission published a consultation paper on its proposed criteria for the regulation of electrical contractors. Further to that consultation the Commission will publish its decision on the Criteria Document in 2008 and will commence its Designation Process.
Implement HR Strategy and the development of the Business Information Centre (BIC)

Division: Operations Generation and Safety

The Operations Division within the CER comprises of a HR Department, the Business Information Centre and the Finance Department. This division is essentially an internal support division to the four policy and regulatory divisions of the Commission.
Implement HR Strategy and the development of the Business Information Centre (BIC)

Implementation of HR Strategy

The HR function is a key support mechanism within the CER for the various business units. However it is also involved, in conjunction with the CER’s Business Information Centre in driving efficiency gains throughout the organisation.

The CER is a knowledge based and knowledge dependent organisation. Due to the nature of its business and the environment it operates in the Commission views the quality of its people as being the most important factor in ensuring its ability to successfully regulate the gas and electricity markets.

In 2006, the CER undertook a detailed review of the HR function, with the aim of designing a HR centre of excellence that would provide best practice in this area. Following this review the Commission approved the implementation of a CER HR Strategy.

The main components of the strategy include:

- Performance Management
- Management Development
- Career Development
- Communications

All four projects were successfully implemented during 2007, and will be further developed in 2008.

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Management</td>
<td>The CER launched a new performance management system in January 2008. The aim of this system was to create a transparent and fair performance management system and to ensure that individual performance is measured against specific measurable objectives i.e. SMART objectives.</td>
</tr>
<tr>
<td>Management Development</td>
<td>A management development programme for all middle managers (with modules for senior management also) was launched in mid 2006 and ran until late 2007. The programme involved identifying strengths and weaknesses in the CER management team and putting in place a structured set of practical learning initiatives to develop the talents and skills of the management team.</td>
</tr>
<tr>
<td>Career Development</td>
<td>This area of the CER’s HR strategy involved the design and implementation of a career development programme for selected analysts and admin staff in the organisation. The aim of this programme, which ran throughout 2007, was to develop leadership, team-working, time management and project focused skills in non managerial staff.</td>
</tr>
<tr>
<td>Communications</td>
<td>In 2007, the CER implemented a new internal communications process led by the HR Department. This process has put in place a structured internal process to ensure that all staff have adequate information on all relevant internal departmental workflows, processes and decisions.</td>
</tr>
</tbody>
</table>
Recruitment:
Recruitment during 2007 focused primarily on our Graduate Programme. The CER visited colleges across Ireland to promote the programme which has been running successfully since 2006. Applications were at an all time high, and four candidates were selected to commence their 12 month learning path with the CER early in 2008.

Health & Safety:
The Commission promoted the importance of Health and Safety at the workplace throughout the year, with the introduction of an updated Safety Statement, and through hosting a dedicated five day Health and Safety focused programme. The Health and Safety week covered a variety of issues such as, Health Screening for all Staff, VDU Assessments, Manual Handling and Fire Safety training. No serious accidents occurred during 2007, and regular Health & Safety refresher training and risk assessments took place throughout the year.

Development of the Business Information Centre
The CER established the Business Information Centre (BIC) in late 2006. The role of the Business Information Centre is to drive and support the objectives of the CER, through the establishment of robust information management structures, planning structures and a communications strategy that is consistent with the CER’s regulatory objectives.

The CER undertook a project to fully implement the Business Information Centre during 2007. This involved setting up the day to day structures for the efficient working of the BIC in the following areas:

- Information Management,
- Business and Strategic Planning,
- Media Management, and
- Coordination of European Participation, including CEER23 and ERGEG24.

23. CEER: Council of European Energy Regulators.
24. ERGEG: European Regulators Group for Electricity and Gas.

Implement HR Strategy and the development of the Business Information Centre (BIC)

Information Management
The BIC is responsible for the coordination of all information requests received by the Commission to the info@cer.ie email address. Approximately 350 information requests received to this address were handled by the BIC between April and December 2007. Streamlining of information requests in this way ensures all of our stakeholders receive an efficient and quality service when contacting the Commission.

Indeed in summer 2007, the Commission undertook a review of its quality of customer service based on guidelines produced by the Government’s working group on Quality of Customer Service. The CER’s Customer Charter has been simplified and re-launched, while continued emphasis has been placed on monitoring of the Customer Charter and maintaining its prominence in the organisation. In September 2007, the Commission included a section on quality of customer service in its questionnaire to the electricity and gas industry, and the public on a Review of its Consultation Process. Encouragingly all respondents indicated their satisfaction with the Quality of Customer Service offered by the CER and complemented the CER on fast and effective responses and easy access to key personnel.

Much of the BIC’s focus during the year was on the development of improved internal information and knowledge management structures. The BIC commenced a Records Management Project in 2007 with the aim of developing and implementing clear and consistent information management processes across the organisation. This project progressed significantly during the year and will continue to be a priority for the BIC in 2008.

In addition, the CER commenced a review of its Public Consultation Process in late 2007. The aim of this review is to identify and address any areas of the current process that are in need of improvement. The Commission presented a number of proposals at the first annual CER Open Day in early 2008. These proposals were also published for public consultation. The BIC will continue to work on the further development and implementation of approved changes during 2008.
Implement HR Strategy and the development of the Business Information Centre (BIC)

Business and Strategic Planning
During 2007, the BIC assisted the Commission in carrying out a review of the CER's business planning and risk management processes and procedures. Following on from this a new improved planning process was developed and has been implemented across the organisation. The BIC also carries out an annual review of the business planning performance. These improved planning structures will help the Commission in achieving its regulatory objectives with greater efficiency.

The structure of identifying the Commission’s 10 Key Tasks was also put in place in 2007, allowing for increased focus on key work areas and improved monitoring and reporting.

Media Management
The BIC coordinates all of the CER's responses to press queries, information requests and parliamentary questions (PQs). Queries are regularly received from journalists of newspapers and various editorials.

The BIC is responsible for the management and future development of the CER’s new website, launched in early 2007. The new website was received well throughout the year and now allows users to source documents in three ways:

- by type;
- by year; and
- through the search function.

As part of the Review of the Public Consultation Process the Commission intends to further develop and improve the CER website in 2008. Particular focus will be given to developing an improved search function and the storage and retrieval of decision and consultation papers.

CEER & ERGEG
The BIC also coordinates the CER's interactions with European bodies such as the CEER and ERGEG. These groups aim to develop common policy and strategy amongst all of the European energy regulators as well as encourage regular reporting and questionnaire reporting. During 2007 the Commission participated in a number of working and focus groups.

The Commission carried out a detailed analysis of the EU’s 3rd Package on Energy Legislation in late 2007 and subsequently advised the DCENR on relevant aspects of the proposals and their likely impact on Ireland. DCENR is representing Ireland in ongoing negotiations with other European countries and the EU Commission on these proposals.
The Commission established an official project office in late 2007. The role of the project office is to lead and support the successful implementation of major projects in the CER through:

- The implementation of governance structures;
- The scoping and development of workplans;
- Updating and reporting against workplans;
- The identification of risks and issues;
- The management of budgets.

At present the project office is involved in the following three projects:

- Common Arrangements for Gas;
- Smart Metering;
- Secretariat to the Single Electricity Market (SEM) Committee.

**COMMON ARRANGEMENTS FOR GAS (CAG)**

In November 2004, the Regulatory authorities of CER and NIAUR agreed on the Development Framework for the All-Island Energy Market. Following the successful implementation of the Single Electricity Market (SEM) in 2007 the next stage of this development is to undertake the Common Arrangements for Gas project. The aim of this project is to establish All-Island Gas Market Arrangements whereby all stakeholders can buy, sell, transport, operate, develop and plan the natural gas market north and south of the border effectively on an all-island basis.

The aim of the CAG is to deliver the following:

- A Single Transmission Tariff Methodology;
- A Single Transmission Operational Regime, which will include a Single Gas Quality Standard & Common Emergency Procedures;
- A Single Connection Policy for Transmission;
- A Single Transmission Planning Regime;
- A common framework for regulation of retail markets, including Single Supplier Codes, a Single Change of Supplier Process & Single Retail Processes and Systems.

It is estimated that significant elements of the CAG will be substantially complete by October 2010. A full Project Plan will be published along with an indicative Cost Benefit Analysis Q3 2008.

The benefits arising from the establishment of CAG will largely be due to the on-going operational efficiencies and cost savings that will evolve when the two systems are operated, balanced and maintained as one system.

**SMART METERING**

The EU Directive on Energy End-User Efficiency and Energy Services supported by the Programme for Government 2007 seeks to increase energy efficiency and states that customers should be provided with “time of use tariffs” where the benefits outweigh the costs in the long term. This is where the price of electricity varies across the day to reflect the actual costs of producing electricity at different times of day.

Smart Meters have been identified as one technology where energy efficiency can be encouraged. The Commission carried out a consultation in early 2007 entitled “Demand Side Management and Smart Metering”. This paper considered measures that would encourage residential customers to use electricity more efficiently and also looked specifically at the case for introducing time of use tariffs. Following this consultation paper, a next steps paper was published outlining the Commission’s decision to work with ESB Networks in this area.
**CER Project Office**

**Figure 10.0 Smart Metering Project Governance:**

---

**Smart Metering Project**

The Commission, in conjunction with ESB Networks (ESBN) commenced a smart metering pilot project in late 2007. Through this project the CER and ESBN will analyse the feasibility of implementing smart meters throughout Ireland. In order to draw on the experience and expertise of the electricity and gas market a steering group and a working group was established. Both groups are chaired by the Commission and the working group consists of representatives from:

- Bord Gáis Networks
- CER
- Customer Groups
- Dept of Communications, Energy and Natural Resources
- ESB Customer Supply
- ESB Networks
- Independent Suppliers
- Microgeneration representatives
- Sustainable Energy Ireland.

The CER is leading Phase 1 of the project which commenced in late 2007. Within this project ESB Networks will commence a pilot study rolling out up to 25,000 smart meters in various geographical locations countrywide. The first meters are expected to be installed in late 2008. It is estimated that the full rollout of smart meters could cost in the region of €700m (April 2008).

**SEM COMMITTEE**

The project office is also responsible for the administration of the SEM Committee. This role and the functions of the SEM committee have been outlined in Key Task 2 Page 16.
Our ten key work items for 2008 are as follows:

1. All Island Gas Project
2. Renewables – Decide on Gate 3 and respond strategically to 2020 All Island Grid Study
3. Smart Metering
4. SEM Continuing Development
5. East-West Interconnector Competition
6. Security of Supply
7. Electricity Tariff Re-structuring
8. Implement the Natural Gas Safety Regulatory Framework and the approach for the Regulation of Electrical Contractors and Gas Installers including Designation of Safety Bodies
9. Complete Implementation of Customer Care Strategy
10. Enhancement of CER Records and Knowledge Management Structures

Full details of the Commission’s work programme for 2008 can be found on the CER’s website, www.cer.ie.
Appendix B
Customer Affairs Team (CAT) Annual Report 2007

Information

This report is made by the Commission for Energy Regulation ("the Commission") to the Minister for Communications, Energy and Natural Resources in line with the requirements set out in S.I. 452 of 2004:

The Commission shall publish annually a report to the Minister on:
(a) the number and type of complaints received and their resolution; and
(b) the service levels provided by suppliers.

Table of Contents

1. Introduction & Background 59
   1.1 Introduction 59
   1.2 Legislative Background 59
   1.3 Role of the Customer Affairs Team 59

2.0 Overview of work in 2007 59
   2.1 Operational Work 59
   2.2 Complaints Summary 60
   2.3 Project Work – Customer Codes 62

3.0 Plans for 2008 62
INTRODUCTION & BACKGROUND

1. Introduction
This report comprises a summary of the work undertaken by the Commission’s Customer Affairs Team (“CAT”) in 2007.

The CAT was established late in 2006 to provide a complaint resolution service directly to small business and domestic customers. The team interacts with suppliers and network operators on a customer’s behalf if they believe that their complaint has not been resolved appropriately. Where appropriate the Commission may direct a supplier or network operator to undertake an action or compensate a customer in relation to their complaint.

In order to have a complaint considered by the CAT the customer must first complete the formal complaints process offered by their supplier or network operator.

In addition to logging formal complaints, the CAT is the Commission’s first point of contact for gas and electricity customers with respect to information requests and general complaints which don’t require formal investigation through an external party.

1.2 Legislative Background
Statutory Instrument (SI) 452 of 2004 for Natural Gas and SI 60 of 2005 for Electricity increased the Commission’s responsibility in the area of customer protection. In particular both SI 452 and SI 60 provide the Commission with the legal remit to resolve disputes between customers and licensed suppliers, the distribution system operator in electricity and, in the case of natural gas, natural gas licence holders.

In carrying out this function, the Commission can issue determinations and directions which are binding on the licensed supplier, distribution system operator and, in the case of natural gas, an intermediary of such a licence holder.

OVERVIEW OF WORK IN 2007

2.1 Operational Work
During the first half of 2007 the CAT operated in parallel with the ESB’s arbitration service ELCOM and Bord Gáis’ arbitration service. From 1st July 2007 the CAT became the primary point of contact for customers with unresolved supplier or network complaints. Throughout the year customer queries were quite varied but recurring themes included tariffs, estimated bills, customer disconnections and frequency of meter readings. The CAT averaged 75 contacts with customers per week from 1st July onwards. In addition to these standard customer contacts the CAT logged and investigated an average of 25 formal complaints against suppliers and network operators per month.
A complaint is deemed to be a formal complaint if a customer has exhausted the complaints procedure of their supplier or network operator. If a customer has not completed this step they are referred back to that process.

This report focuses on the second half of 2007 because it was from this point onwards that the Commission was recording all formal customer complaints for the industry. The CAT received 117 new customer complaints during the latter half of the year and completed investigations of 27 which were opened during the first half of the year. In total 128 cases were investigated and closed during this period, leaving 16 cases still open at year-end to carry into 2008. Awards totalling over €34,000 were made to customers following determinations made by the Commission.

2.2 Complaints Summary

2.2.1 Supplier Complaints
CAT issued 45 findings in respect of complaints against suppliers. These are broken down as follows:

- Tariffs: 23
- Security Deposits: 14
- General Services: 12
- Liability Disputes: 8
- Other Issues: 9

The most common complaints against suppliers related to tariffs and disputes regarding liability for charges e.g. when customers move residence. The new and simpler gas tariffs introduced by Bord Gáis Energy Supply on October 1st 2007 should help to reduce the number of tariff complaints in 2008.

Customers with complaints arising from estimated meter readings will typically contact their supplier in the first instance. These complaints are however logged against the network operator, given that the root cause of the complaints relate to the meter reading service.

2.2.2 Network Complaints
The single biggest area of complaint in 2007 related to the matter of estimated meter readings in the electricity sector. While ESB Networks aim to take four official meter readings per year, a number of customers will receive less than four readings due to various reasons, including no access to the premises. For some customers who do not receive meter readings for an extended period of time this may lead to large bill being received when an actual meter reading is taken. 25 of the cases investigated by the CAT were regarding this type of complaint. CAT has had a number of discussions with ESB Networks and individual suppliers about initiatives to reduce the amount of complaints in this area. Due to the varied reasons behind the receipt of estimated bills the CAT may issue different types of determinations in

Complaints by Category

The 45 complaints are broken into five categories as shown below.
these cases. A total of 83 findings were issued in respect of customer complaints against the network operators. 68 of these were in respect of complaints against ESB Networks and 15 were against Bord Gáis Networks.

These complaints were categorised as follows:

```
2.2.3 Sample Complaints

CASE STUDY 1
Complaint
An industrial customer experienced a number of supply interruptions over a period of two years and this was impacting on his business. While ESB Networks had taken a number of steps to improve the situation, the customer was concerned about the effectiveness of these steps.

Investigation
CAT reviewed the network arrangements for this customer. CAT was satisfied that the steps taken by ESB Networks in terms of improving and maintaining the normal arrangements for supply were comprehensive and should deliver results over the medium term. While the standby arrangements to use alternative parts of the network for supplying a customer (where possible) are rarely used, CAT made some suggestions regarding additional steps which could be taken by ESB Networks to improve its performance. In addition, CAT recommended that the customer consider investing in an Uninterruptable Power Supply (UPS) to cater for his most critical processes.

Outcome
Complaint partly upheld.

CASE STUDY 2
Complaint
A customer complained that an additional charge which applied to group landlord accounts had been applied incorrectly to their account for a number of years despite the house being an owner occupied dwelling.

Investigation
CAT established that the house had previously been part of a landlord’s portfolio and this had not been changed when the current owner bought the premises.

CAT was satisfied that, although ESB Customer Supplier had not been informed of the change, the customer had not at any stage been a landlord and that the charge had been incorrectly applied.

Outcome
Complaint upheld.

In addition to this customer’s complaint being upheld the Commission instructed ESB Customer Supply to put in place measures to assist other customers who may also have experienced this problem.

CASE STUDY 3
Complaint
A commercial customer received a bill for €7000 in respect of electricity charges following the replacement of a faulty time-switch by ESB Networks. The customer felt that this charge was unjustified as he felt that the fault should have been observed by the meter reader.

Investigation
CAT established that the faulty time switch resulted in the incorrect billing of day and night units over a two year period. Four unsuccessful attempts were made by the meter reader to access the premises during that period. The reduction in charges resulting from the error was not observed by the customer.

Outcome
Complaint upheld.
CAT was satisfied that the final pro-ration of the night and day units by ESB Networks was appropriate and that the undercharge was valid. CAT supported the proposal by the supplier to spread the payments over an agreed time period.

**Outcome**
Complaint not upheld.

**CASE STUDY 4**

**Complaint**
A landlord complained that when his new tenant received his first gas bill that it included a charge of €115 as a reconnection charge. The landlord believed that the charge was inappropriate because he had not requested that the gas be disconnected when the previous tenant vacated the premises.

**Investigation**
CAT established that the meter at the premises was locked for non payment of a gas account in August 2006. The supply was disconnected until the new occupant arrived in May 2007. Almost €230 would have accumulated in supply charges if the premises had not been disconnected in the meantime.

CAT did not support the landlord’s request to waive the unlocking fee.

**Outcome**
Complaint not upheld.

**2.3 Project Work – Customer Codes**

The key project completed by the CAT in 2007 was the approval and launch of supplier customer charters and codes of practice.

The Commission formalised and implemented requirements for suppliers to put in place codes of practice and customer charters for their customers. These requirements aim to increase the quality of service received by customers from their suppliers and also to provide customers with formal mechanisms for dealing with their supplier when they do not receive the expected level of service.

The requirements for suppliers are as follows:

- Code of practice on billing & payment
- Code of practice on de-energisation/ disconnection
- Code of practice on complaints handling

In addition to these codes suppliers who have domestic customers also have to put in place the following additional provisions:

- Code of practice for vulnerable customers
- Code of practice on marketing
- Customer Charter

These codes were formally launched by the Commission in March 2007. Suppliers are now operating to their approved procedures and are expected to report on their performance for the first time in 2008.

**3.0 Plans for 2008**

In 2008 the CAT aims to heighten awareness of the role the Commission plays on behalf of customers. Projects which will be undertaken in order to achieve this goal will include:

- Development of a customer website;
- Implementation of formal processes and a Customer Management System; and
- Formal launch of, and publicity around, the Commission’s customer brand.
Appendix C
CER Organisational Structure (End 2007)
I have pleasure in presenting the audited financial statements of the Commission for Energy Regulation for the year ended 31 December 2007.

Financial Year
The accounting period consists of twelve months to 31 December 2007.

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, Energy 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, Energy 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 in 2007 were Mr. Michael G. Tutty (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. In 2008 the Committee was expanded to include a new Independent Chairperson, Mr. Michael Guilfoyle.

Following a competitive tendering process in 2005, the Audit Committee appointed PricewaterhouseCoopers as Internal Auditors for a three-year period. During 2007 the Committee asked the Internal Auditors to report 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.

- Perform a high level review of Information Technology (IT) deployed within the Commission including voice communications & web based technology; and

- As part of the IT review, consider the business and operational risks arising from technology (management controls, procedures and security arrangements, including contingency, business continuity and data protection).

Tom Reeves
On behalf of the Commission
I have audited the financial statements of the Commission for Energy Regulation for the year ended 31 December 2007 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.

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 2007 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
30 June 2008
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, Energy 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
for the year ended 31 December 2007

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 the 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 risks 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 2007.

On behalf of the Commission

Tom Reeves
Chairperson
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 1/3%
- 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 Paragraphs 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.

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 is 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 2007

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></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>Income</td>
<td>Levy</td>
<td>2</td>
<td>5,096,220</td>
<td>10,186,500</td>
</tr>
<tr>
<td></td>
<td>Licensing Fees</td>
<td>30,000</td>
<td>81,805</td>
<td>111,805</td>
</tr>
<tr>
<td></td>
<td>Other Income</td>
<td>2</td>
<td>0</td>
<td>181,799</td>
</tr>
<tr>
<td>Gross Income</td>
<td>5,126,220</td>
<td>10,450,104</td>
<td>15,576,324</td>
<td>19,202,740</td>
</tr>
<tr>
<td></td>
<td>Transfer from / (to) capital account</td>
<td>8</td>
<td>193,947</td>
<td>487,879</td>
</tr>
<tr>
<td>Net Income</td>
<td>5,320,167</td>
<td>10,937,983</td>
<td>16,258,150</td>
<td>16,213,973</td>
</tr>
</tbody>
</table>

Expenditure

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct Wages &amp; Salaries</td>
<td>3</td>
<td>1,341,609</td>
<td>3,191,374</td>
</tr>
<tr>
<td></td>
<td>Pension Costs</td>
<td>9</td>
<td>155,073</td>
<td>573,927</td>
</tr>
<tr>
<td></td>
<td>Recruitment and Training</td>
<td>69,128</td>
<td>182,330</td>
<td>251,458</td>
</tr>
<tr>
<td></td>
<td>Travel &amp; Subsistence</td>
<td>41,344</td>
<td>85,210</td>
<td>126,554</td>
</tr>
<tr>
<td></td>
<td>Office Accommodation Expenses</td>
<td>4</td>
<td>137,019</td>
<td>374,563</td>
</tr>
<tr>
<td></td>
<td>IT &amp; Communications</td>
<td>55,085</td>
<td>145,058</td>
<td>200,143</td>
</tr>
<tr>
<td></td>
<td>Office Service Costs</td>
<td>22,535</td>
<td>47,973</td>
<td>70,508</td>
</tr>
<tr>
<td></td>
<td>Insurance Premiums</td>
<td>14,915</td>
<td>40,264</td>
<td>55,179</td>
</tr>
<tr>
<td></td>
<td>Advertising</td>
<td>31,311</td>
<td>55,535</td>
<td>86,846</td>
</tr>
<tr>
<td></td>
<td>Professional &amp; Consultancy Fees</td>
<td>968,091</td>
<td>5,622,989</td>
<td>6,591,080</td>
</tr>
<tr>
<td></td>
<td>Audit fees</td>
<td>3,960</td>
<td>9,240</td>
<td>13,200</td>
</tr>
<tr>
<td></td>
<td>Internal Audit fees</td>
<td>2,442</td>
<td>17,137</td>
<td>19,579</td>
</tr>
<tr>
<td></td>
<td>Other Expenses</td>
<td>33,561</td>
<td>31,432</td>
<td>64,993</td>
</tr>
<tr>
<td></td>
<td>Depreciation</td>
<td>96,476</td>
<td>303,332</td>
<td>399,808</td>
</tr>
<tr>
<td></td>
<td>Loss on Disposal of Leasehold Improvement</td>
<td>5</td>
<td>246,632</td>
<td>739,897</td>
</tr>
<tr>
<td></td>
<td>3,219,181</td>
<td>11,420,261</td>
<td>14,639,442</td>
<td>12,829,567</td>
</tr>
<tr>
<td>Surplus/(Deficit) for the year</td>
<td>2,100,986</td>
<td>(482,278)</td>
<td>1,618,708</td>
<td>3,384,406</td>
</tr>
<tr>
<td>Surplus brought forward</td>
<td>(1,099,655)</td>
<td>6,807,699</td>
<td>5,708,044</td>
<td>2,323,638</td>
</tr>
<tr>
<td>Operating Surplus at 31 December</td>
<td>1,001,331</td>
<td>6,325,421</td>
<td>7,326,752</td>
<td>5,708,044</td>
</tr>
</tbody>
</table>

Statement of Total Recognised Gains and Losses

<table>
<thead>
<tr>
<th>Notes</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/(Deficit) for the year</td>
<td>1,618,708</td>
</tr>
<tr>
<td>Actuarial Gain / (Loss) on Pension Liabilities</td>
<td>9</td>
</tr>
<tr>
<td>Total Recognised Gains and (Losses)</td>
<td>2,693,708</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 13 form part of these Financial Statements

Tom Reeves
On behalf of the Commission
**Balance Sheet**
for the year ended 31 December 2007

<table>
<thead>
<tr>
<th>Notes</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro</td>
<td>Euro</td>
</tr>
<tr>
<td><strong>Fixed Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible Assets</td>
<td>5</td>
<td>3,619,120</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>6</td>
<td>279,170</td>
</tr>
<tr>
<td>Cash at Bank and in hand</td>
<td></td>
<td>674,633</td>
</tr>
<tr>
<td>Short Term Deposits</td>
<td></td>
<td>7,235,575</td>
</tr>
<tr>
<td><strong>Creditors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Amounts falling due within one year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>7</td>
<td>1,197,099</td>
</tr>
<tr>
<td><strong>Net Current Assets excluding pension Liability</strong></td>
<td></td>
<td>6,992,279</td>
</tr>
<tr>
<td>Pension Liability</td>
<td></td>
<td>(1,426,000)</td>
</tr>
<tr>
<td><strong>Net Current Assets including pension Liability</strong></td>
<td></td>
<td>5,566,279</td>
</tr>
<tr>
<td><strong>Total Assets Less Current Liabilities</strong></td>
<td></td>
<td>9,185,399</td>
</tr>
<tr>
<td><strong>Financed by</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Account</td>
<td>8</td>
<td>3,619,120</td>
</tr>
<tr>
<td>Income and Expenditure Account</td>
<td>10</td>
<td>7,326,752</td>
</tr>
<tr>
<td>Pension Reserve</td>
<td>9</td>
<td>(1,760,473)</td>
</tr>
<tr>
<td><strong>Reserves including pension liability</strong></td>
<td></td>
<td>9,185,399</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 13 form part of these Financial Statements.

Tom Reeves

*On behalf of the Commission*
### Reconciliation of operating surplus to net cash inflow from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus / (Deficit) on Income and Expenditure</td>
<td>1,618,708</td>
<td>3,384,406</td>
</tr>
<tr>
<td>Adjustment for non cash item</td>
<td>(63,317)</td>
<td>(253,863)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>399,808</td>
<td>198,725</td>
</tr>
<tr>
<td>Bank Interest</td>
<td>(181,519)</td>
<td>(217,030)</td>
</tr>
<tr>
<td>Transfer (from) / to capital account</td>
<td>(681,826)</td>
<td>2,988,767</td>
</tr>
<tr>
<td>(Increase) / Decrease in Debtors</td>
<td>150,246</td>
<td>(362,004)</td>
</tr>
<tr>
<td>(Decrease) / Increase in Creditors</td>
<td>(1,408,959)</td>
<td>1,547,299</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>986,529</td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash Inflow / (Outflow) From Operating Activities</strong></td>
<td><strong>819,670</strong></td>
<td><strong>7,286,300</strong></td>
</tr>
</tbody>
</table>

### Cash Flow Statement

**Net cash inflow / (outflow) from operating activities**

819,670 7,286,300

Returns on Investments
- bank interest 181,519 217,030

Capital expenditure
- purchase of fixed assets (704,511) (3,187,492)

Management of Liquid Resources
- short term deposits (730,732) (1,890,302)

Financing – Increase in Debt 0 (1,500,000)

Increase / (Decrease) in Cash Balances (434,054) 925,536

Reconciliation of net cash flow to movement in net funds

Increase / (Decrease) in cash in hand in the period (434,054) 925,536

Cash used to increase liquid resources 730,732 1,890,302

Cash (Inflow) / Outflow from increase/ reduction in Debt 0 1,500,000

Change in net funds 296,678 4,315,838

Opening Net funds 7,613,531 3,297,693

Closing Net funds 7,910,209 7,613,531

The Statement of Accounting Policies and Notes 1 to 13 form part of these Financial Statements

**Tom Reeves**

*On behalf of the Commission*
Notes to the Financial Statements
for the year ended 31 December 2007

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, Energy 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.

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>2007 Gas</th>
<th>2007 Electricity</th>
<th>2007 Total</th>
<th>2006 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation</td>
<td>0</td>
<td>2,698,595</td>
<td>2,698,595</td>
<td>2,534,889</td>
</tr>
<tr>
<td>Transmission</td>
<td>1,705,656</td>
<td>2,516,344</td>
<td>4,222,000</td>
<td>3,716,092</td>
</tr>
<tr>
<td>Distribution</td>
<td>1,705,656</td>
<td>2,516,340</td>
<td>4,221,996</td>
<td>3,716,088</td>
</tr>
<tr>
<td>Supply</td>
<td>0</td>
<td>2,455,221</td>
<td>2,455,221</td>
<td>2,985,343</td>
</tr>
<tr>
<td>Shipping</td>
<td>1,684,908</td>
<td>0</td>
<td>1,684,908</td>
<td>800,573</td>
</tr>
</tbody>
</table>

Gas Shipping Income includes an amount of €15,146 in respect of unsecured creditors claim at the date of liquidation of Irish Fertilizer Industries.

Other Income

<table>
<thead>
<tr>
<th>Source</th>
<th>2007</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Interest</td>
<td>0</td>
<td>181,519</td>
<td>217,030</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>280</td>
<td>5,208,186</td>
</tr>
</tbody>
</table>

| Total        | 0    | 181,799 | 5,425,216 |

Other Income - Electricity

3. Employees and Remuneration

Employee costs during the year:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></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>1,229,739</td>
<td>2,917,342</td>
<td>4,147,081</td>
<td>3,694,619</td>
</tr>
<tr>
<td>Employer PRSI</td>
<td>111,870</td>
<td>274,032</td>
<td>385,902</td>
<td>353,663</td>
</tr>
<tr>
<td></td>
<td>1,341,609</td>
<td>3,191,374</td>
<td>4,532,983</td>
<td>4,048,282</td>
</tr>
</tbody>
</table>

Number of Employees as at 31.12.2007  18  41  59

The salaries of the Members of the Commission totalled €441,636. The Commission comprises of Mr. Tom Reeves- Chairman and Mr. Michael G. Tutty- Member.

4. Office Accommodation Expenses

As part of the agreement with OPW in relation to the surrender of the lease at The Plaza, Belgard Road, Tallaght, Dublin 24, an amount of €300,386 of outstanding rent was written off.

5. 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 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>
<tr>
<td>Additions</td>
<td>404,639</td>
<td>95,248</td>
<td>44,335</td>
<td>38,763</td>
<td>121,526</td>
<td>704,511</td>
</tr>
<tr>
<td>Disposals</td>
<td>(1,376,169)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(1,376,169)</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2007</td>
<td>2,960,978</td>
<td>736,250</td>
<td>264,209</td>
<td>345,037</td>
<td>219,147</td>
<td>4,525,621</td>
</tr>
</tbody>
</table>

Accumulated Depreciation:

<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></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></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>
<tr>
<td>Charge for the year</td>
<td>175,143</td>
<td>97,191</td>
<td>31,710</td>
<td>58,041</td>
<td>37,723</td>
<td>399,808</td>
</tr>
<tr>
<td>Disposals</td>
<td>(389,640)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(389,640)</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2007</td>
<td>147,211</td>
<td>256,512</td>
<td>112,551</td>
<td>273,371</td>
<td>116,856</td>
<td>906,501</td>
</tr>
</tbody>
</table>

Net Book Value:

<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></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2007</td>
<td>2,813,767</td>
<td>479,738</td>
<td>151,658</td>
<td>71,666</td>
<td>102,291</td>
<td>3,619,120</td>
</tr>
<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>
</tbody>
</table>

Leasehold Improvement Disposal value of €986,529 represents the loss on disposal following on from the surrender of the sub-lease with the OPW for the premises at First Floor, The Plaza, Belgard Road, Tallaght, Dublin 24 in 2007.
6. Debtors (due within one year)

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy – Gas</td>
<td>65,799</td>
<td>4,654</td>
</tr>
<tr>
<td>Levy – Electricity</td>
<td>127,992</td>
<td>384,282</td>
</tr>
<tr>
<td>AIP Shared Costs due from NIAUR</td>
<td>54,983</td>
<td>14,606</td>
</tr>
<tr>
<td>Prepayments</td>
<td>30,396</td>
<td>25,874</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>279,170</strong></td>
<td><strong>429,416</strong></td>
</tr>
</tbody>
</table>

7. Creditors (Amounts falling due within one year)

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Creditors</td>
<td>264</td>
<td>(836)</td>
</tr>
<tr>
<td>Accrual – Rent</td>
<td>34,328</td>
<td>300,386</td>
</tr>
<tr>
<td>Accrual – Consultancy and Professional fees</td>
<td>776,235</td>
<td>1,055,817</td>
</tr>
<tr>
<td>Accrual – Other Creditors</td>
<td>92,153</td>
<td>854,194</td>
</tr>
<tr>
<td>PAYE / PRSI</td>
<td>260,931</td>
<td>247,329</td>
</tr>
<tr>
<td>Payroll</td>
<td>1,005</td>
<td>1,056</td>
</tr>
<tr>
<td>Professional Services Withholding Tax</td>
<td>32,183</td>
<td>148,313</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,197,099</strong></td>
<td><strong>2,606,058</strong></td>
</tr>
</tbody>
</table>

8. Capital Account

<table>
<thead>
<tr>
<th>Description</th>
<th>2007</th>
<th>2007</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>1,071,240</td>
<td>3,229,706</td>
<td>4,300,946</td>
</tr>
<tr>
<td>Electricity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,300,946</strong></td>
<td><strong>4,300,946</strong></td>
<td><strong>4,300,946</strong></td>
</tr>
<tr>
<td>Funds allocated to acquire fixed assets</td>
<td>149,161</td>
<td>555,350</td>
<td>704,511</td>
</tr>
<tr>
<td>Amount amortised in line with asset depreciation</td>
<td>(96,476)</td>
<td>(303,332)</td>
<td>(399,808)</td>
</tr>
<tr>
<td>Amortisation in respect of fixed assets disposed of</td>
<td>(246,632)</td>
<td>(739,897)</td>
<td>(986,529)</td>
</tr>
<tr>
<td>Net amount of transfer</td>
<td>(193,947)</td>
<td>(487,879)</td>
<td>(681,826)</td>
</tr>
<tr>
<td></td>
<td>877,293</td>
<td>2,741,827</td>
<td>3,619,120</td>
</tr>
</tbody>
</table>

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 2007. Scheme assets are stated at their mid-market value as at 31 December 2007.
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>31/12/2007</td>
<td>31/12/2006</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>Rate of increase of pensions in deferment</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Discount Rate</td>
<td>5.50%</td>
<td>4.70%</td>
</tr>
<tr>
<td>Inflation Assumption</td>
<td>2.25%</td>
<td>2.25%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>At year-end</th>
<th>At year-end</th>
<th>At year-end</th>
<th>At year-end</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31/12/2007</td>
<td>31/12/2006</td>
<td>31/12/2007</td>
<td>31/12/2006</td>
</tr>
<tr>
<td>€000's</td>
<td>€000's</td>
<td>€000's</td>
<td>€000's</td>
<td>€000's</td>
</tr>
<tr>
<td>Equities</td>
<td>7.70%</td>
<td>3,694</td>
<td>7.40%</td>
<td>2,873</td>
</tr>
<tr>
<td>Bonds</td>
<td>4.30%</td>
<td>604</td>
<td>3.90%</td>
<td>366</td>
</tr>
<tr>
<td>Property</td>
<td>6.00%</td>
<td>393</td>
<td>5.40%</td>
<td>204</td>
</tr>
<tr>
<td>Other</td>
<td>2.50%</td>
<td>347</td>
<td>2.50%</td>
<td>636</td>
</tr>
<tr>
<td>Total market value of assets</td>
<td>5,038</td>
<td>4,079</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial value of liability</td>
<td>(6,464)</td>
<td>(6,464)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recoverable surplus/(deficit) in scheme</td>
<td>(1,426)</td>
<td>(2,565)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related deferred tax</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net pension asset/(liability)</td>
<td>(1,426)</td>
<td>(2,565)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Analysis of the amount charged to operating surplus:

<table>
<thead>
<tr>
<th></th>
<th>Year to 31/12/2007</th>
<th>Year to 31/12/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>€000's</td>
<td>€000's</td>
<td>€000's</td>
</tr>
<tr>
<td>Service cost</td>
<td>684</td>
<td>676</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>Net return on pension scheme</td>
<td>45</td>
<td>77</td>
</tr>
<tr>
<td>Net charge</td>
<td>729</td>
<td>753</td>
</tr>
</tbody>
</table>
### Analysis of net return on pension scheme

<table>
<thead>
<tr>
<th></th>
<th>Year to 31/12/2007</th>
<th>Year to 31/12/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000’s</td>
<td>€000’s</td>
</tr>
<tr>
<td>Expected return on pension scheme assets</td>
<td>296</td>
<td>174</td>
</tr>
<tr>
<td>Interest on pension liabilities</td>
<td>(341)</td>
<td>(251)</td>
</tr>
<tr>
<td><strong>Net return</strong></td>
<td><strong>(45)</strong></td>
<td><strong>(77)</strong></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 31/12/2007</th>
<th>Year to 31/12/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000’s</td>
<td>€000’s</td>
</tr>
<tr>
<td>Actual return less expected return on assets</td>
<td>(687)</td>
<td>137</td>
</tr>
<tr>
<td>Experience gains and losses on liabilities</td>
<td>445</td>
<td>(868)</td>
</tr>
<tr>
<td>Changes in assumptions</td>
<td>1,317</td>
<td>792</td>
</tr>
<tr>
<td><strong>Actuarial gain/(loss) recognised in STRGL</strong></td>
<td><strong>1,075</strong></td>
<td><strong>61</strong></td>
</tr>
</tbody>
</table>

### Movement in surplus during the year

<table>
<thead>
<tr>
<th></th>
<th>Year to 31/12/2007</th>
<th>Year to 31/12/2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€000’s</td>
<td>€000’s</td>
</tr>
<tr>
<td>Deficit in scheme at beginning of year</td>
<td>(2,565)</td>
<td>(2,880)</td>
</tr>
<tr>
<td>Movement in year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current service cost</td>
<td>(684)</td>
<td>(676)</td>
</tr>
<tr>
<td>Contributions</td>
<td>793</td>
<td>1,007</td>
</tr>
<tr>
<td>Other finance income / (costs)</td>
<td>(45)</td>
<td>(77)</td>
</tr>
<tr>
<td>Actuarial gain/(loss)</td>
<td>1,075</td>
<td>61</td>
</tr>
<tr>
<td><strong>Surplus/(Deficit) in scheme at end of year</strong></td>
<td><strong>(1,426)</strong></td>
<td><strong>(2,565)</strong></td>
</tr>
</tbody>
</table>

### History of experience gains and losses

<table>
<thead>
<tr>
<th>Financial year ending in</th>
<th>Financial year ending in</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>2006</td>
</tr>
<tr>
<td>Difference between expected and actual return on scheme assets:</td>
<td></td>
</tr>
<tr>
<td>amount [€000s]</td>
<td>(687)</td>
</tr>
<tr>
<td>percentage of scheme assets</td>
<td>(14%)</td>
</tr>
<tr>
<td>Experience gains and losses on scheme liabilities:</td>
<td></td>
</tr>
<tr>
<td>amount [€000s]</td>
<td>79</td>
</tr>
<tr>
<td>percentage of scheme assets</td>
<td>1%</td>
</tr>
<tr>
<td>Total amount recognised in statement of recognised gains and losses:</td>
<td></td>
</tr>
<tr>
<td>amount [€000s]</td>
<td>1,075</td>
</tr>
<tr>
<td>percentage of scheme assets</td>
<td>17%</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. One Commission member and six staff members have superannuation entitlements arising from service with other public sector bodies prior to their joining the Commission. The Commission is entitled to recover the cost of funding the prior service from other public bodies under the terms of its membership of the Public Service Transfer Network.

10. Accumulated 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 accumulated surplus attributed to the electricity sector of €6,325,421 was taken into account in determining the levy order for 2008. The accumulated surplus attributed to the gas sector of €1,001,331 was taken into account in determining the levy order for 2008.

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 €411,933 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. Approval of Financial Statements

The Commission approved these financial statements on 30 June 2008.