To: Mr Eamon Ryan, TD. 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 1st January 2008 to 31st December 2008.

Michael G. Tutty
Chairperson

Tom Reeves
Commissioner

Dermot Nolan
Commissioner
<table>
<thead>
<tr>
<th>CONTENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
</tr>
<tr>
<td>Statement of Best Practice</td>
</tr>
<tr>
<td>Introduction</td>
</tr>
<tr>
<td>Gas &amp; Electrical Safety</td>
</tr>
<tr>
<td>Introduction</td>
</tr>
<tr>
<td>Gas Safety Regulatory Framework</td>
</tr>
<tr>
<td>Regulation of Electrical Contractors</td>
</tr>
<tr>
<td>Regulation of Gas Installers</td>
</tr>
<tr>
<td>Electricity</td>
</tr>
<tr>
<td>Security of Supply</td>
</tr>
<tr>
<td>Single Electricity Market</td>
</tr>
<tr>
<td>Electricity Transmission</td>
</tr>
<tr>
<td>Electricity Distribution</td>
</tr>
<tr>
<td>Electricity Retail</td>
</tr>
<tr>
<td>Renewables</td>
</tr>
<tr>
<td>Gas</td>
</tr>
<tr>
<td>Security of Supply</td>
</tr>
<tr>
<td>Common Arrangements for Gas (CAG)</td>
</tr>
<tr>
<td>Gas Transmission and Distribution</td>
</tr>
<tr>
<td>Gas Retail</td>
</tr>
<tr>
<td>Energy Customers.ie</td>
</tr>
<tr>
<td>CER Operations</td>
</tr>
<tr>
<td>Commission for Energy Regulation Financial Statements</td>
</tr>
<tr>
<td>Appendix A - Commission Work Programme 2009</td>
</tr>
<tr>
<td>Appendix B - CER Organisational Structure (End 2008)</td>
</tr>
</tbody>
</table>
In the energy sector, many people will remember 2008 as a year of “two halves”. The first saw an unprecedented rise in wholesale fuel prices, leading to an inevitable knock-on impact on consumer electricity and gas prices. The second in contrast was characterised by a collapse in these wholesale prices, as a direct result of the global economic downturn. It was against this volatile background that the Commission endeavoured to maintain a level of stability for customers and to mitigate the impact of this fuel volatility. The Commission implemented a two phased tariff review approach that resulted in regulated electricity and gas tariffs increasing by 17.5% and 20% on average respectively in the late summer months following gas coal and oil prices peaking around 75 p/therm, $218 per tonne and $146 per barrel in 2008. This interim measure protected consumers from bearing the full brunt of the unprecedented rises in fuel costs on international markets. A combination of drops in wholesale fuel prices and rebates secured by the Commission from BGE and the ESB ensured the second stage of the phased approach did not result in any further increases. As part of its improved consultation process the Commission held its first Open Forum on tariffs in November 2008 providing interested parties with the opportunity to gain a better understanding of tariff proposals submitted by BGE and ESB.

Despite price issues dominating, 2008 was also a year of tangible regulatory progress. In particular, significant steps were made towards the achievement of Ireland’s new 40% renewable target\(^1\), with the Commission’s decision to allow for the connection of an additional 3,900 MW of renewable power in the Gate 3 process. It is estimated that an installed renewable capacity of 5,800 MW will be required to meet the Government’s 40% target for 2020. Gates 1 and 2 combined with the 3,900 MW announced in Gate 3 should result in an installed renewable capacity of approximately 6,700 MW (if all projects are completed) - putting Ireland in the position to meet and potentially surpass Government targets.

Connecting such high levels of intermittent generation plant to the electricity network does not come without its challenges; not least the need to ensure the market signals the necessity for the appropriate plant mix and the location of such plant. In addition, it is noted that there is a requirement to rollout in a timely fashion, the network infrastructure necessary to support renewable generation, often located far from load centres, and the conventional generation needed to support it. Significantly, the development of the East West Interconnector will allow for the export of excess generation on the system as well as improving security of supply and competition. Throughout 2008 the Commission continued to monitor the development of the 500 MW East West Interconnector project. Considerable progress in its development is now likely in 2009.

The Single Electricity Market (SEM) celebrated its first birthday in November 2008. Both the CER and the NIAUR\(^2\) are satisfied that the new joint wholesale market arrangements are successfully delivering benefits for all consumers. Despite the high underlying fuel costs the design of the market ensures the most cost effective stations run first and that wholesale prices remain fair and competitive. Additionally the market is attracting significant interest in the development of new generation plant. In particular the entry of Endesa into the market is a reflection of the success of

---

\(^1\) Government target of 40% electricity consumption from Renewable Energy Sources by 2020.
\(^2\) Northern Ireland Authority for Utility Regulation.
the SEM to date. As part of the CER-ESB Asset Strategy Agreement, which was designed to reduce ESB’s market share in the power generation sector in Ireland to 40% by 2010, ESB completed the sale of just over 1,000MW of plant to Endesa in early 2009. Endesa are now in the position to become a significant player in the market.

In keeping with the Development Framework for an All Island Energy Market the Commission and the Utility Regulator signed a Memorandum of Understanding (MoU) for the development of Common Arrangements for Gas (CAG) on an All-Island basis on the 14th February 2008. The basic idea of the CAG is, drawing on the achievement of the SEM in the electricity sector, to establish all island trading, regulatory and statutory arrangements whereby all stakeholders can buy, sell, transport, and contribute to the development and planning of the natural gas market north and south of the border effectively on an all-island basis. Twelve work streams were identified. Particular progress was achieved in the areas of cost benefit analysis, network tariffs, code alignment, gas quality and commitment to an annual Joint Capacity Statement with effect from 2009.

Other significant gas developments in 2008 included the establishment and licensing of Gaslink as independent system operator - including its relationship with the network owner - a review and decision on the future of the RTF retail tariff regime for large industrial and commercial customers, approval of a new Natural Gas Emergency Plan and consideration of an application from the developers of the Shannon LNG project for exemption from regulated third party access rules.

The Commission continued throughout 2008 with the implementation of its gas and electricity safety functions, with a number of major milestones being reached. Of key importance was the appointment of the Register of Gas Installers of Ireland (RGII) as Gas Safety Supervisory Body, and the appointment of Electrical Contractors Safety & Standards Association (Ireland) Ltd (ECSSA Ltd) and the Register of Electrical Contractors of Ireland Ltd (RECI Ltd) as the new electrical safety supervisory bodies. On behalf of the Commission, these bodies will now oversee the registration and supervision of Registered Gas Installers (RGI) and Registered Electrical Contractors (REC). The bodies will also be responsible for ongoing audit and inspection of their respective registered members, thereby ensuring that work carried out is in compliance with the relevant standards and technical rules. With legal implementation of both schemes in 2009, consumers can be confident that the highest safety standards are being adhered to by registered contractors and installers when carrying out electrical and gas works.

The Commission was pleased to launch its Energy Customers Team (ECT) and customer website: www.energycustomers.ie in 2008. In addition to providing a customer information service, the ECT provides a complaint resolution service to customers who are in dispute with their electricity or natural gas supplier. The energycustomers.ie website provides customers with accessible, relevant information to allow them to become more “bill aware” and to actively manage their energy costs. The service also provides customers with information on their rights, suppliers’ codes of practice, the customer switching process and the complaints process. It is vital that consumers are fully aware of the components of their bill and the impact their consumption has on the level of their bill.
In keeping with the EU Directive on Energy End-User Efficiency and Energy Services, the Commission, in conjunction with ESB Networks progressed the Smart Metering project during 2008. As part of the 1st phase of this project Customer Behaviour Trials (CBT’s) will commence in 2009. These trials will enable information to be obtained on customer consumption patterns and will provide participating customers the opportunity to monitor their own consumption and make behavioural changes where necessary.

At an organisational level, Mr. Dermot Nolan, was appointed as third Commissioner of CER, by the Minister for Communications, Energy and Natural Resources in July 2008. Mr. Nolan has joined the Commission from his previous appointment at the Communications Regulator (ComReg). The Commission continues to work closely with NIAUR on the SEM through established Joint Regulatory Arrangements and also on the Common Arrangements for Gas (CAG) project.

Of key importance in the coming year will be the development of the Commission’s 5 year Strategic Plan for 2010 – 2014. This plan will provide a high level outline of our strategic goals and the strategies we will implement to achieve those goals. The Commission will set out an ambitious vision, to be developed in further detail over the next 5 years through its annual business planning process. The Strategic Plan will aim to ensure the necessary regulatory policies are in place to implement relevant aspects of the European Commission’s 3rd Legislative Energy Package and the EU’s Renewables and Climate Change package. The Commission looks forward to liaising with its industry partners in developing this Strategic Plan. In the shorter term the Commission published its annual work plan for 2009 in January; this sets out our ten key tasks for 2009 and the areas of work involved in delivering these tasks.

The Commission recognises the current difficult economic environment and the impact these circumstances are having on customers and indeed on the energy sector. We remain committed to working with industry participants and consumer representatives to ensure the goal of secure, sustainable and competitive supplies is achieved while also recognising the difficulties associated with our fuel mix and reliance on imports. The Commission continues and will continue to tackle these challenges throughout 2009.

Michael G. Tutty
Chairperson
Tom Reeves
Commissioner
Dermot Nolan
Commissioner

June 2009
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 2008 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 in 2009 and future years with the revised Code published in June 2009.

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.

Michael G. Tutty
Chairperson

Tom Reeves
Commissioner

Dermot Nolan
Commissioner
This is the tenth annual report of the Commission for Energy Regulation (CER). The report provides an outline of the CER’s key work items and achievements of 2008. While the annual report is designed to provide an update on the Commission’s progress in achieving its strategic goals, many of the Commission’s work items are ongoing and will continue into and in some cases beyond 2009.

As part of the Commission’s internal business planning process 101 work items were identified for commencement, continuation or delivery during 2008. Of these 101 items, 10 work items were selected as the Commission’s ‘Ten Key Tasks for 2008’. These key tasks are spread across the Commission and were viewed as being the most important areas of strategy for the year 2008. While the main focus of the Commission’s work during 2008 was on these 10 key tasks each of the 101 work items contributed to the CER’s overall strategic objectives.

**CER Work Programme 2008 - Ten Key Tasks for 2008**

1. Common Arrangements for Gas
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 Restructuring
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 Customer Care Strategy

The Commission’s Annual Report 2008 is structured around the different segments of the electricity and gas sectors such as safety, security of supply, generation, networks and retail with particular focus on the Commission’s ten key tasks for 2008.
Gas & Electrical Safety
The Safety Team of the Commission is responsible for discharging the Commission’s statutory functions with respect to public safety involving the regulation of transmission, distribution, storage, supply and shipping of natural gas. The team also has responsibility for the supervision of Registered Electrical Contractors and Registered Gas Installers.

The team has been working since its establishment in 2006 to implement the necessary structures that will ensure the safety of electricity and gas customers is protected, as prescribed primarily under the Energy (Miscellaneous Provisions) Act 2006 (‘the 2006 Act’).

The importance of the Commission’s role in this area is reflected in the large volume of work carried out in 2008. Specifically for 2008 the Commission set out a key task to:

Implement the Natural Gas Safety Regulatory Framework and the approach for the Regulation of Electrical Contractors and Gas Installers including designation of safety bodies.

Some of the key achievements of the safety team in 2008 are outlined below:

- The development and publication of a Safety Case Assessment Process in March 2008 as required under the ‘Natural Gas Safety Regulatory Framework’;
- The development and signing of a Memorandum of Understanding (MOU) between the Commission and the Health and Safety Authority (the ‘Authority’) setting out the basis for co-operation between both agencies;
- The development and publication of a decision paper outlining the ‘Commission’s Decisions regarding Economic Aspects of Regulating Electricity and Gas Safety’;
- The development and publication of ‘Version 1 of the Criteria for the Regulation of Gas Installers with Respect to Safety’;
- Appointment of the Register of Gas Installers of Ireland (RGII) as the Gas Safety Supervisory Body (GSSB);
- The development and publication of ‘Version 1 of the Criteria for the Regulation of Electrical Contractors with Respect to Safety’;
- Appointment of the Register of Electrical Contractors of Ireland (RECI) and the Electrical Contractors Safety and Standards Association (ECSSA) as Electrical Safety Supervisory Bodies (ESSB’s).
Under the 2006 Act the Commission has the responsibility to regulate the activities of natural gas undertakings and natural gas installers with respect to public safety through the establishment and implementation of a natural gas safety regulatory framework (the ‘Framework’). Throughout 2008 the Commission, through its Gas Safety Team, made significant progress in the implementation of the Framework.

The Commission’s Approach Paper on the Natural Gas Safety Regulatory Framework for Ireland provides 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:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>A Gas Safety Case regime, which applies a risk and outcomes based approach to the management of gas safety risks for each licensed undertaking.</td>
</tr>
<tr>
<td>2.</td>
<td>A Gas Safety Supervisory Body responsible for the registration of gas installers that meet specified criteria of training and competency, and subsequently regulate gas installers via an ongoing inspection and audit regime of work against specified standards.</td>
</tr>
<tr>
<td>3.</td>
<td>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 safety promotional activity.</td>
</tr>
<tr>
<td>4.</td>
<td>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 incident reporting and investigation requirements by the operators of major accident hazard facilities – e.g. LNG and gas storage operators.</td>
</tr>
<tr>
<td>5.</td>
<td>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.</td>
</tr>
<tr>
<td>6.</td>
<td>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.</td>
</tr>
</tbody>
</table>
The focus of the Gas Safety Team in 2008 was on continued implementation of the Framework. To this end, the Gas Safety Team implemented a number of the key components of the Framework as set out below:

**Safety Cases**

Following the publication of a Safety Case Assessment Process in March 2008 and a comprehensive assessment process, Safety Cases for Bord Gáis Networks - Transmission, Bord Gáis Networks - Distribution, Bord Gáis Energy and Flogas were accepted by the Commission in 2008. The Commission is satisfied that each of these undertakings has acceptable safety arrangements for the management of gas-related risks in place and they are working on a day-to-day basis. The Commission also requires that each undertaking carry out a full review of its safety case every three years to ensure that the safety case remains as a ‘living document’ within the organisation and fully reflects the current safety operating measures and practices.

Marathon Oil Ltd. submitted an interim Safety Case for its storage facility in Kinsale, Co. Cork in September 2008. The assessment process for this safety case is ongoing and is likely to be completed in early 2009.

The Safety Cases for the remaining shipper/supplier undertakings will be submitted and assessed in 2009. Any gas undertaking seeking to participate in the gas market in Ireland will be required to submit a safety case for review and acceptance by the Commission before a licence will be issued.

**Memorandum of Understanding with Health and Safety Authority**

In June 2008, the Commission and the Health and Safety Authority (the ‘Authority’) signed a Memorandum of Understanding (MOU) setting out the basis for co-operation between both agencies. The objective of this initiative is to enhance the actions of both agencies in discharging their respective statutory responsibilities with regard to safety, whilst avoiding a duplication of effort and the imposition of an unnecessary regulatory burden on companies.
Figure 1.0 Signing of Memorandum of Understanding with Health and Safety Authority

From Back Left: Paul McGowan (CER Director Safety, Environment, and Customer Affairs), PJ Claffey (HSA Programme Manager, Field Operations), and Eamonn Murtagh (CER Gas Safety Manager). From Bottom Right: Tom Reeves (Commissioner), Martin O’Halloran (CEO of HSA), Michael G. Tutty (Chairman)
The Energy (Miscellaneous Provisions) Act 2006 provides for the establishment and implementation of a new regulatory system for the regulation of electrical contractors with respect to public safety.

The Commission has set about designing and implementing a regulatory system that will protect consumers by requiring qualified electrical contractors to register with an Electrical Safety Supervisory Body who will monitor and inspect electrical works carried out to ensure they are to the highest safety standard. The appointment of the new Electrical Safety Supervisory Bodies was a highlight of the Commission’s work in 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’

During 2008 the Commission set about implementing the requirements of the 2006 Act. This involved the Commission setting criteria for a designated body and its registered members, including conditions relating to safety standards to be achieved and maintained in electrical work and the procedures for the inspection of such work. Through a competitive process the Commission appointed two Electrical Safety Supervisory Bodies to act as regulatory bodies for electrical contractors also following consultation set out the definition of the scope of controlled works. Controlled works refers to electrical works that fall under the scope of the new regulatory system and which will require certification.
In doing so the Commission has developed and achieved the following:

I. Development and publication of the ‘Criteria Document’ which sets 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. There will also be rules and obligations placed upon Registered Electrical Contractors to maintain registration with the appointed Body. The Commission’s decision on the Criteria Document was published on the 18th April 2008;

II. Development and full roll out of the ‘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 competitive process began in March 2008 and was completed in October 2008. The outcome of this process was the appointment of ECSSA and RECI as the new Electrical Safety Supervisory Bodies;

III. Development and completion of ‘Terms and Conditions of Appointment’, setting out the obligations and rights placed upon the Commission and the new Electrical Safety Supervisory Bodies during the term of appointment;

IV. Development and publication of the Commission’s Decision Document ‘Economic Aspects of Regulating Electrical and Gas Safety’ setting out how the Commission will economically regulate both the Electrical Safety Supervisory Bodies and the Gas Safety Supervisory Body during their respective terms of appointment;

V. The ‘Go-Live’ date for the operation of the new Electrical Safety Supervisory Bodies took place on the 5th January 2009. In the lead up to this date the Commission approved a number of specific procedures which are critical to the operation of the new regulatory system.

VI. Development and publication of the Commission’s consultation on ‘Controlled Works’, setting out the types of electrical work that will require certification and will be monitored and inspected by the new Electrical Safety Supervisory Bodies. The certification of Controlled Works can only be carried out by a Registered Electrical Contractor registered with one of the Electrical Safety Supervisory Bodies.

The publication of the decision paper on the above consultation and decision documents took place following an extensive consultation process. Critical to the consultation process were the development of the Criteria Working Groups (CWG) and the re-establishment of the Electrical Contractors Criteria Review Panel (ECCRP). These are industry forums with representation from the self-regulatory bodies for electrical contractors, ECSSA and RECI, the Electro-Technical Council of Ireland (ETCI) and ESB Networks.

It is planned that the full roll out of the Electrical Safety Supervisory Bodies’ common procedures, as set out in the Criteria Document, will take place throughout 2009. This will be achieved through stakeholder participation and involvement in the Criteria Working Groups.

4 CER/08/071
Similarly to electrical safety the 2006 Act provides for the establishment and implementation of a new regulatory system for the regulation of natural gas installers with respect to public safety.

Work in the area of gas safety during 2008 focused upon the development and implementation of the new regulatory system. The Commission successfully met its commitment in its ‘Vision for the Regulation of Gas Installers with respect to Safety’\(^5\), which stated that a new regulatory model for gas installers would be operational from the beginning of January 2009.

The Commission appointed the Register of Gas Installers of Ireland (RGII) as the Gas Safety Supervisory Body (GSSB) on the 6th November 2008. The RGII is a wholly owned subsidiary of RECI and is responsible for regulating gas installers with respect to safety. RGII who are carrying out this function on behalf of the Commission began Registering Gas Installers on 5th January 2009.

The appointment of the RGII in 2008 was a significant achievement for the Commission requiring a number of milestones to be met during the year in order to achieve it. These included:

I. Publication of the “Criteria Document – Version 1.0 – Regulation of Gas Installers with respect to safety”\(^6\) which prescribes the rules of operation of the new regulatory system and specifies the Standard to which a Registered Gas Installer must work;

II. Publication of 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. These Membership Categories can be viewed in Section C of the Criteria Document;

III. Completion of the 2 stage procurement process to designate the GSSB:
- Stage 1 Expression of Interest Stage;
- Stage 2 Detailed invitation to tender stage; and

IV. Appointment of the RGII as the GSSB on 6th November 2008;

\(^5\) CER/07/225
\(^6\) CER/08/130
V. Transfer of ownership of the RGI brand from BGN to the Commission and the subsequent licensing of the brand to the RGII;

VI. Approval of the RGII’s Specific Procedures such as Application and Registration Procedures as required by the Criteria Document;

VII. Development and publication of a consultation paper setting out the Scope of Gas Works it proposes to designate for the purpose of the system for the regulation of gas installers with respect to safety7. The outcome of this consultation process will be to identify the categories of gas works which may only be undertaken by individually Registered Gas Installers;

The focus in 2009 will switch to ensuring that the correct procedures and processes are put in place to allow the regulatory system to become fully operational during 2009 and ensure a positive and widespread public and industry awareness of the regulatory regime. To achieve this, a number of steps will have to be undertaken in 2009. These include, among other items, the:

• Publication of a draft decision and final decision paper setting out the Commission’s decisions with respect to the scope of gas works that the Commission proposes to designate for the purpose of the system for the regulation of gas installers with respect to safety. These final decisions will be subsequently translated into regulations. These regulations will set out the classes of work that can only be completed by a Registered Gas Installer. It will be an offence to carry out gas works unless registered subsequent to the enacting of the regulations;

• Development of those Operational Procedures identified by the Criteria Document as key to the successful implementation of the regulatory system;

• Implementation of a promotion plan to raise awareness of the importance of choosing a Registered Gas Installer, getting gas works certified and the safety issues surrounding the use of natural gas and the maintenance of natural gas appliances and fittings;

• Convening of the appropriate working groups to support the regulatory regime as set out in the Vision and Criteria Documents e.g., the Criteria Review Panel and the Competency Assessment Working Group;

• Full regulatory oversight of the RGII’s operations by the Commission including quarterly reporting and annual audits.

7 CER08/142
The Commission’s legal functions and duties in relation to security of supply are contained in legislation\(^8\) and remained a key priority for the Commission in 2008. The focus of maintaining secure supplies in turn ensures that the ‘lights stay on’, that electricity and gas continue to flow and that the Single Electricity Market and the gas market are monitored to ensure that these objectives can be delivered. To meet this goal continual planning, analysis and forecasting are required. In recent years, this has been achieved through a collaborative effort between the Commission, EirGrid and the Department of Communications, Energy and Natural Resources (DCENR).

In 2008 the key work streams centred on the activities of:

- Monitoring Generation Adequacy;
- Compiling a detailed analysis and report on Ireland’s Security of Supply position and monitoring arrangements, for submission to the European Commission;
- The finalisation of a decision on Secondary Fuel Obligations on generators;
- The completion of ongoing activities with the Task Force for Emergency Procedures, and;
- Continued monitoring of progress on the construction of generation stations that have received approval or authorisations to construct.

In addition, the Commission oversaw the sale of assets under the CER-ESB Asset Strategy agreement of 2007 which resulted in the sale of a significant portion of ESB’s generation portfolio to the Spanish Utility Endesa.

### Generation Adequacy

**Monitoring Generation Adequacy**

Monitoring the generation system through the analysis of the demand-supply balance of electricity and gas is crucial. The Commission carries out monitoring on short, medium and long-term timeframes. The CER continues to publish weekly generation updates reporting on the status of generation adequacy and the status of the system week-to-week.

---

\(^8\) The Electricity Regulation Act, 1999 and Statutory Instrument (S.I.) 60, 2005
Key findings of 2008

Wind generation experienced record highs in Quarter 4 of 2008;

- 811 MW, Sunday 19th October
- 829 MW, Friday 12th December
- 892 MW, Friday 19th December

This trend continued into 2009 with further records set in the early months.

Figure 2.0 Wind Generation 2008

Table 1.0 Peak and valley system record values over 2008

<table>
<thead>
<tr>
<th>System Record</th>
<th>Value</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Winter Night Valley</td>
<td>2802 MW</td>
<td>Friday February 01 2008</td>
</tr>
<tr>
<td>Summer Night Valley</td>
<td>1786 MW</td>
<td>Monday August 04 2008</td>
</tr>
<tr>
<td>Saturday Peak</td>
<td>4431 MW</td>
<td>Saturday December 13 2008</td>
</tr>
<tr>
<td>Sunday Peak</td>
<td>4152 MW</td>
<td>Sunday December 14 2008</td>
</tr>
<tr>
<td>Max Wind</td>
<td>892 MW</td>
<td>Friday December 19 2008</td>
</tr>
<tr>
<td>Weekday Evening Peak</td>
<td>4899 MW</td>
<td>Monday December 15 2008</td>
</tr>
</tbody>
</table>

The trend in the evening peak for the year has seen it reported towards the end of each year, typically the Tuesday or Wednesday of the week before Christmas. Last year was no exception with the peak value of 4,899 MW occurring on 15 December. However, unlike previous years where peak consumption has grown 2-3% year on year the 2008 value did not exceed the evening peak of 5,085 MW reported in 2007.

**Figure 3.0 Peak Demand Figures 2000 - 2008**

There is one major electricity interconnector between the Republic of Ireland and Northern Ireland electricity grids consisting of a 275 kV double circuit overhead line. There are also two small 110 kV standby North-South Interconnectors, which allow the System Operator for Northern Ireland (SONI) and EirGrid to provide the ability to trade electricity between the two systems for reasons of security of supply.

The below chart shows the interconnector flows between SONI (NI) and EirGrid (ROI) in 2008.

**Figure 4.0 Interconnector Flows between NI and ROI in 2008**
Generation Adequacy Report

The Generation Adequacy Report for the period 2009-2015 was published by EirGrid in Dec 2008 and reflects a forecast estimate of the electricity system demand and generation capacity over the next seven years. The Commission approved this document in accordance with the requirements under the Electricity Regulation Act 1999 and Statutory Instrument No. 60 of 2005.

The report outlook is a positive security of supply position for the coming years but is contingent on:

1. The completion and connection of the Aghada and Whitegate projects planned for October 2009 and 31st June 2010 respectively;
2. The continued operation of Great Island and Tarbert generation stations up until the planned closures in 2011/12; and,
3. That there are no major plant failures in excess of existing forced outage trends.

The projected scenarios for the seven year period have been drawn up with these contingencies in mind. The resulting conclusions are that construction projects must occur to plan in order to ensure security of supply and that plant availability is still of concern for the coming years.

Monitoring of construction projects

The Commission continues to monitor the construction of power stations and receives reports on a quarterly basis on progress against completion time lines.

The large generation projects closely monitored by the Commission at present include:

ESB 431 MW CCGT plant at Aghada, Co. Cork
From progress reports throughout 2008, the completion is still on target for Q4 2009.

Bord Gáis 445 MW CCGT plant at Whitegate, Co. Cork
This plant is planned for completion in time for winter 2010. Whitegate applied for its Generation Licence in late 2008 and reports suggest that construction of the plant is on target for completion.
Licensing

The megawatts associated with the authorisations and licences issued and applications received in 2008 are shown in Figure 5.0 below. The relatively high figure illustrated for Q3 is primarily as a result of the receipt of an application in relation to an East-West Interconnector. The large figure in Q4 for Licence Applications is primarily as a result of a BGE CCGT plant and the ESB/Endesa asset sale agreement. The high figure for Authorisation Applications in Q3 refers to EirGrid’s interconnector application.

Security of Supply Report

Under S.I 60 of 2005 and EU Directives 2003/54/EC & 2005/54/EC the Commission is required to prepare and submit a report to the European Commission every two years detailing the major issues surrounding electricity Security of Supply. The second and most recent Security of Supply Report was published in July 2008. This report examines the supply conditions existing for those fuels making up the Irish fuel mix, reports on the monitoring of any difficulty of access to the network that could pose a risk to security of supply and discusses the range of measures the Commission is overseeing that would further benefit security of supply for the future. The conclusion of this report identified several key measures that had been initiated or should be realised to protect security of supply:

1. An adequate notice period for forthcoming plant closures;
2. Efforts to meet the Renewables targets for 2010 and 2020;
3. Develop a more flexible plant mix;
4. Encourage Demand-Side Management.

Figure 5.0 Authorisations and Licences Issued and Received during 2008.
The Commission is currently overseeing a number of measures to directly benefit security of supply. These include:

- A transmission project to double the electricity interconnector capacity between Northern Ireland and Ireland scheduled for 2012,
- The East West electricity interconnector to Great Britain scheduled for 2012.

The Security of Supply Report indicates a heavy reliance on fossil fuels for electricity generation, primarily natural gas, coal and oil. The continued supply of natural gas is a critical issue for the Commission given that natural gas accounted for approx 55% of Ireland’s generation fuel mix in 2007\(^\text{10}\). The Commission has taken a number of measures to protect the security of supply of natural gas including:

- Developing a proposal that would enhance those obligations of generators regarding stocks of secondary fuel. The details of this proposal are outlined further below in section 2.1.3.
- Continuing with the Task Force on Emergency Procedures group as a forum in which to discuss plans and procedures for managing a gas emergency or shortage.

**Figure 6.0 Ireland’s overall fuel mix by fuel type in 2007\(^\text{11}\)**

- Gas 55%
- Renewables 11%
- Oil 6%
- Peat 6%
- CHP 4%
- Coal 18%
Task Force on Emergency Procedures

Ensuring security of supply of natural gas continues to form an important part of the Commission’s activities. 93% of gas supplied to Ireland is imported from the UK. This reliance on one source has implications for maintaining the supply and security of this important resource.

The Task Force on Emergency Procedures was established in 2005 and during 2008 continued to mobilise on issues surrounding possible emergency scenarios and to develop plans in order to manage such situations. A major focus of the Taskforce has been the creation of mutually agreed procedures and chain of communications in the event of a gas emergency. The testing of these procedures has been carried out by Bord Gáis Networks, EirGrid and Gaslink in cooperation with UK authorities, through a series of organised paper drills from 2006-2008.

In late 2008, the National Gas Emergency Plan was approved by the Commission following several meetings and coordination with EirGrid, Bord Gáis and Gaslink (as the Natural Gas Emergency Manager; the coordinator for the island of Ireland and the Isle of Man in the event of a gas emergency announced in the UK).

The Task Force continues to meet on a regular basis to address the different emergency concerns and formulate joint action plans in order to manage such situations.

Secondary Fuelling Obligations

A particular concern for the Task Force on Emergency Procedures has been ensuring sufficient stocks of secondary fuels are held on site and the capability of plant to run such fuels in the event of a gas emergency.

Following public consultation the Commission published its final decision on the requirements of generators, with regard to secondary fuel in early 200912. The key decisions this paper addresses are:

- Generating units should have a minimum capacity of 90% of the unit’s rated capacity of its primary fuel when run on its secondary fuel.
- Higher Merit units expecting to operate for more than 2,630 hours per annum are required to hold stocks equivalent to five days continuous running based on the unit’s rated capacity on its primary fuel.
- Lower Merit units expecting to operate for less than 2,630 hours per annum are required to hold stocks equivalent to three days continuous running based on the unit’s rated capacity on its primary fuel.
- CHP units with a capacity of greater than 10MW will be required to hold fuel stocks equivalent to one day continuous running based on the unit’s rated capacity on its primary fuel.

12 CER/09/001
• EirGrid can perform up to two successful tests per year on each generating unit. EirGrid will develop the necessary arrangements and procedures to be followed for the tests.

• Stocks stored will be examined by EirGrid. EirGrid may wish to install a signal from the generator’s tanks so that the level of fuel stocks can be monitored by EirGrid.

Monitoring by EirGrid will commence in 2009 and installation for such a signal in the generator’s tanks will be explored. Furthermore the schedule for the testing regime will begin once EirGrid have finalised their testing procedures.

ESB Asset Strategy Agreement

In 2007 the agreement for ESB to divest some of their plant, through the process of sale to a third party or by gradual de-commission and closure, was signed between ESB and the CER. This agreement is a key measure in reducing ESB’s market share and encouraging increased wholesale competition. A specific sale process was designed and completed with the successful company being, Spanish utility giant Endesa Desarrollo Ltd, in early 2009.

This Asset Strategy provided for:

• The sale of 208 MW of peaking capacity
• The closure/ divestment of 1,300 MW of existing power plant
• The sale of generation sites at Shannonbridge and Lanesboro, and
• The sale of further generation sites with capacity for 1,000 MW.

The Commission was involved in coordinating and guiding the compliance process in supporting the activities necessary for the transfer of associated ownership, authorisation and licensing documentation, relating to the units, to Endesa Ireland.

Endesa purchased power generation with a total export capacity of just over 1,000 MW. These are listed below:

• Great Island 216 MW Wexford
• Tarbert 590 MW Kerry
• Peaking Plant 4*50 MW Various
Endesa will become a significant new player in the market and the Commission expects that it will result in competitive efficiency gains in all market players. Their new Irish operations have a market share in the Republic of Ireland of approx. 10% by capacity\textsuperscript{13}. The company also has significant opportunities to grow its market share having also purchased sites under the Asset Strategy at Shannonbridge and Lanesboro. The Commission welcomes Endesa’s entry into the Irish Market as a significant boost for competition in the Irish electricity sector.

\textbf{Figure 7.0 All Island Market Share by Installed Capacity Jan 2009.}

![Market Share Pie Chart]

(NIE PPB market share includes Kilroot, Ballylumford, and Coolkeeragh peaking power stations.)

\textsuperscript{13} Market share by capacity expressed as a percentage of the share of total installed capacity (December 2008).
**SINGLE ELECTRICITY MARKET**

**Introduction**

The Single Electricity Market (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.

Following the successful introduction of the SEM, on the 1st November 2007, the Regulatory Authorities (RAs), the CER and the Northern Ireland Authority for Utility Regulation (NIAUR), focus has moved towards the ongoing governance and operation of the new wholesale market and towards ensuring that the benefits of the market are fully realised.14

**Regulatory Environment**

The SEM Committee is the decision-making body which governs the exercise of regulatory functions on SEM matters. Legislation was enacted in both jurisdictions to establish and to give effect to the SEM Committee:

Republic of Ireland – the Electricity Regulation (Amendment) (Single Electricity Market) Act 2007 which amends the Electricity Regulation Act 1999 to provide for the establishment and operation of a single competitive wholesale electricity market on the island of Ireland.

Northern Ireland – the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 provides a legal framework for the establishment and operation of the SEM in NI.

Under law, the primary function of the SEM Committee is the taking of decisions as to the exercise of relevant functions of the CER or the NIAUR in relation to SEM matters on behalf of the Regulatory Authorities.

The objectives and functions of the SEM Committee in carrying out their functions in relation to the SEM are set out in Section 9 of each of the above acts.

---

14 For more detailed information on SEM related activities please see the 2008 SEM Annual report available at www.allislandproject.org
**Governance Arrangements**

A schematic of the high-level joint regulatory governance arrangements, put in place by the RAs to support the SEM Committee, is shown below:

<table>
<thead>
<tr>
<th>SEM COMMITTEE</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Secretariat</td>
<td>Oversight Committee</td>
<td></td>
</tr>
<tr>
<td>Key Regulatory Function</td>
<td>Key Regulatory Function</td>
<td>Key Regulatory Function</td>
<td>Key Regulatory Function</td>
</tr>
<tr>
<td>Trading &amp; Settlement Code</td>
<td>Market Monitoring</td>
<td>Market Modelling</td>
<td>SMO Regulation</td>
</tr>
</tbody>
</table>

The SEM Committee is supported by an Oversight Committee, a Secretariat and a number of Joint Management Units (JMUs) which supervise and co-ordinate key regulatory workstreams.

The Oversight Committee is responsible for:

- the management and recommendation of resources across both Regulatory Authorities to ensure both Regulatory Authorities give effect to decisions of the SEM Committee;
- the co-ordination and development of proposals on SEM matters for consideration by the SEM Committee;
- the management of key regulatory functions through JMUs, as outlined below; and,
- Such other matters as determined by the SEM Committee.

Four key SEM regulatory functions have been identified and a Joint Management Unit ("JMU"), assigned to each:

- Trading and Settlement Code;
- Market Modelling Group;
- Market Monitoring Unit;
- Single Electricity Market Operator (SEMO) Regulation.

Agreed internal joint working principles, called Joint Regulatory Arrangements, have been developed by the Regulatory Authorities for the operation of the oversight arrangements, the exercise of roles in the management of each JMU, and the exercise of any delegated functions from the SEM Committee.
SINGLE ELECTRICITY MARKET

Regulatory Operations

The CER has lead responsibility for two of the JMU’s; the Trading & Settlement Code and the Market Modelling Group, and also a shadow role in the other two JMU’s; SEMO Regulation and the Market Monitoring Unit.

Trading & Settlement Code

The Code is a multilateral contract which sets out the rules and procedures concerning the sale and purchase of wholesale electricity in Ireland and Northern Ireland. The Code was designated by the Regulatory Authorities on 3rd July 2007 and can be modified from time to time thereafter in accordance with procedures set out in the Code.

The Code Modifications Committee’s role, which comprises of industry participants, is, among other things, to consider and report on proposed modifications to the Code. There were eight meetings of the Modifications Committee held during 2008. Over the course of the year, the Modifications Committee, guided by the Secretariat, modified its process for dealing with Modification Proposals which has resulted in notable improvements. These have been achieved through the following:

- Working groups are now being set up to develop the certain detail of Modification Proposals;
- The Modifications Committee has seen improved organisation at its regular meetings; and,
- The Modification Recommendation Reports have also improved in quality.

During the course of 2008, the SEM Committee approved the following significant Code Modifications:

- Inclusion of Aggregated Generating Units in the SEM (Mod 05_08);
- Correction of Excessive Credit Cover Requirement (Mod 72_08);
- Enduring Application of DLAFs (Mod 43_08);
- Dual Rated Generator Amendment (Mod 34_08).

The RAs also consulted on several policy-related Code parameters to apply for the 2009 calendar year, these including; Price Cap and Floor, Uplift parameter, Value of Lost Load, Credit Cover parameters, MSP Software parameters, Annual Capacity Exchange Rate, Uninstructed Imbalances parameters, Flattening Power Factor, and Settlement Recalculation Threshold.
Market Modelling Group (MMG)

The Market Modelling Group (MMG) provides market forecasts of the SEM to the RAs. The majority of the MMG’s forecasting is over short term (1 to 2 years), which is used to feed into the work of other JMUUs and departments within the RAs. Medium and long-term forecasting is also carried out to support RA policy decisions. MMG work during 2008 included:

- Validation of the forecasting model (Plexos) and the dataset for SEM covering 2008 and 2009.
- Estimating the wholesale price for the Public Service Obligation (PSO) levy covering the 1st October 2008 to 30th September 2009.
- Assisting the retail division of CER when analysing ESB Customer Supply Tariffs for the period 1st October 2008 to 30th September 2009.
- Providing modelling support to the RAs in terms of formulating policy such as assessing the impact of the All-island Grid Study 2020 generation portfolios on the SEM.\(^{15}\)

Market Monitoring Unit

The market monitor, based in Belfast, reviews generator participant behaviour in the market; this includes investigations into the exercise of market power, monitoring the compliance of market participants with the bidding code of practice and other market rules. The MMU is also the point of contact for participants who wish to register complaints of market behaviour.

Key issues during 2008 for the MMU included the following:

- Formal bidding enquiry - on receipt of complaints on the bidding behaviour of some market participants. The SEM Committee considered each complaint and gave directions to generators on what should be included in their bid. In summary, the outcome of the inquiry was to clarify how start-up costs should be bid into the market. In addition, the bidding of contracts was also made clear. A decision was published by the SEM Committee on this matter on the 12th June 2008. The MMU continues to monitor the compliance of participants bidding in light of the SEM Committee’s decision.
- Direction on Transmission Loss Adjustments - a direction from the SEM Committee on the inclusion of Transmission Loss Adjustment Factors (TLAFs) in Commercial Offer Data.

\(^{15}\) SEM-09-002 ‘Impact of High Levels of Wind Penetration in 2020 on the Single Electricity Market (SEM)’ published on the AIP website www.allislandproject.org
Capacity Payment Mechanism

The SEM design also consists of a Capacity Payment Mechanism (CPM). The CPM is a fixed revenue system whereby generators are paid regulated quantities of money (capacity payments) for providing generation capacity to the market. The money is sourced by concurrent Capacity Charges levied on all Suppliers that purchase energy from the pool. In 2008, following a consultation with the industry the annual pot for the 2009 CPM was set at €640.9 million, an increase from the 2008 CPM pot of €575.2 million; this is a result of higher capital costs due to increased global demand for gas turbines. In 2009 the Regulatory Authorities will commence a review of the process and calculation of the capital cost of a best new entrant peaking plant with the aim of enhancing the meeting of the CPM's objectives.

SEMO Regulation

This unit, which is based in Belfast, is responsible for approving the Single Electricity Market Operator’s (SEMO) revenues and tariffs, overseeing licence compliance, and approving projects run by SEMO. The main project during 2008 was the Market System Development Plan (Day 1+), which was delivered on time in January 2009.

Prices in the SEM

2008 saw significant movements in the System Marginal Price (SMP) as a result of volatile movements on the international fuel markets. Oil and coal prices reached record highs in 2008 (Oil ~ $146 per barrel, Coal ~ $218 $/tonne) and gas saw prices not seen in over 2 years (Gas ~ 75 p/therm). Then, in July, the price of oil and coal started to fall significantly, while the drop in gas prices was less substantial. The SEM is dominated by power stations that run on fossil fuels and therefore carries through any shocks from those fuel markets into the wholesale electricity price. Gas is the dominant fuel in the SEM and together with coal and oil accounts for nearly 84% of electricity generated in 2008.

Typically, electricity prices are higher over the winter months when demand and fuel prices are highest, but the fall in international fuel prices in late 2008 pushed the cost of generation down and meant lower wholesale prices going into the winter. The figure below shows the average daily System Marginal Price (SMP) from the 1st November 2007 to the 31st December 2008.
Figure 8.0 Average Daily SMP for 2008

SMP = System Marginal Price that is set for each trading period based on a market schedule that is unconstrained by transmission limitations.
Introduction

The transmission system consists of the high voltage wires that transport electricity from generation stations around the country to electricity substations where the voltage is reduced, via the distribution system, to the level required by consumers. Due to the capital intensive nature of electricity network development it does not make economic sense to construct competing wires. For this reason the transmission network is considered to be a natural monopoly and must be regulated. The Irish transmission network is owned by ESB Networks (ESBN); however it is operated by EirGrid who are responsible for the development and maintenance of the transmission network.

The Commission is responsible for regulating connection policy and for setting the charges for connection to and use of the transmission system. In doing so the Commission strives to protect the short and long term interests of Irish energy customers by ensuring high quality sustainable energy supply at competitive prices.

To set such connection charges, the Commission first determines the revenues that the transmission business can earn to cover the costs of the Transmission System Operator (TSO) and the Transmission Asset Owner (TAO), EirGrid and ESB Networks respectively, which feeds into the calculation of Transmission Use of System (TUoS) tariffs. Revenue reviews are carried out each five years, and are then refined in an annual review that updates a range of assumptions. This determines the allowed revenue in that relevant year which is then used to calculate tariffs and charges to users of the transmission system. The latest five year review covers the period 2006 to 2010 and sets out the total allowed revenues over that period.

In accordance with Section 14 of the Electricity Regulation Act, 1999, the Electricity Transmission team in the Commission actively monitors the licences of both the TSO (EirGrid), and the TAO (ESB Networks) to ensure that they (EirGrid and ESB Networks) continue to conform to the conditions and requirements of their licences.

Transmission Revenue Review and Tariffs 2008

As a result of dramatic increases in the cost of fuel over the previous year, in July 2008 the Commission conducted an interim review of electricity tariffs for households and SMEs to apply from the 1st August to 31st December 2008. Transmission tariffs make up approx 4-5% of end users electricity bills, depending on customer category. It was decided that there would be no change in Use of System charges, including TUoS charges, for the interim tariff period from 1st October to 31st December 2008. In September the Commission published a determination on the electricity transmission business’s allowed revenue for 2009. The Commission determined the allowed revenue for the transmission business for 2009 to be €258.9 million, a €30.5 million increase on 2008, thereby increasing the average unit transmission tariff by 12.5% to 0.9 cent/kWh for the period 1st January to end September 2009. The reasons for the increase between 2008 and 2009 include:
A previous reduction in 2008's revenue of €25.4 million, due to a forecasted over-recovery of revenue for 2007;

An increase in the allowed revenue for 2009 of €4.5 million, to allow for the fact that the new (higher) TUoS tariffs apply from 1st January 2009 rather than from 1st October 2008; and,

Somewhat offsetting the above, a decrease in the allowed 2009 revenue of €11.4 million due to the lower than anticipated transmission capital expenditure from 2006 to 2008.

The Commission’s 2006-2010 price control for the electricity transmission business provides for the revenue incentivisation of EirGrid to continually improve the performance of the transmission system. Following agreement with EirGrid in late 2008, in January 2009 the Commission published, for information, the revenue/ performance targets for EirGrid for 2009 and 2010. This builds on some incentives developed for 2008 including various system performance targets, and also introduces new incentives, for example regarding the roll-out of transmission related Gate 3 offers.

**Gate 3**

Renewable generators, most of which are wind farms, connect to the electricity network under a process called the Group Processing Approach\(^\text{16}\). Through this approach renewable generators receive an offer to connect to the network from EirGrid as Transmission System Operator (TSO) or ESB Networks as Distribution System Operator (DSO) in batches known as Gates. The size and criteria of these Gates is decided on by the Commission. There have been two Gate processes over the last few years involving the issuance of connection offers to circa 1,700 MW of renewable generation, allowing for a very significant increase in renewable output in Ireland. There is now about 1,300 MW of renewable generation (mostly wind) connected in Ireland, compared to 600 MW at the beginning of 2005, with a further 1,500 MW due to connect over the next few years. This is before any account is taken of Gate 3, discussed next.

A key item of the Commission’s work plan for 2008 involved the Commission deciding on the size and criteria of Gate 3. The Commission conducted extensive public consultation on this matter, starting with the publication of a broad consultation paper in December 2007 and a public workshop early in 2008 to tease out the various options for the Gate. This led to the publication of a proposed direction on Gate 3 in July 2008. This paper proposed the adoption of what is referred to as the Grid Development Strategy (GDS) approach, which is EirGrid’s plan for the long-run development of the transmission system. In order to meet what was then the Government’s target of 33% of electricity consumption coming from renewable sources by 2020, the paper proposed that 3,000 MW of renewable generation projects be included in Gate 3. They would be selected in application date order and connected through a defined rule set in the context of the GDS. A second public workshop was held by the Commission to discuss these proposals in August.

\(^{16}\) CER/05/049
In keeping with the Government’s decision, announced later last year, to increase its target from 33% to 40% of electricity consumption coming from renewable sources by 2020, the Commission then set out a second proposed Gate 3 direction in November for a short period of final comment. This was broadly similar to the first proposed direction, with a key difference being that it increased the proposed size of the Gate to 3,900 MW on account of the new target.

The Commission’s final Gate 3 direction in December confirmed this approach and the Gate 3 offer programme. Connection offers to all c.3,900 MW renewable projects in Gate 3 are anticipated to roll-out from December 2009 through to June 2011. Combined with previous Gates, it means that the total renewable generation capacity in the State could increase from about 1,300 MW currently to about 6,700 MW over the next decade or so, with the bulk of this being from wind power. This provides for the 40% Government target for 2020 and represents a huge commitment to the development of Irish renewable and indigenous energy as well as to tackling climate change.

Now the focus switches from Gate 3 policy decision to implementation. In this vein the Commission has established a Gate 3 Liaison Group, which is chaired by the Commission and meets monthly throughout the Gate 3 offer programme, involving industry representatives and the system operators. The key focus of this Group is to help ensure that Gate 3 connection offers roll out to plan. Details of the group’s activities are available on the Commission’s website, www.cer.ie.

All-Island Ancillary Services

Ancillary Services (AS) are products other than energy that are essential to ensure the secure and safe operation of the Transmission system. Currently, AS, which include services such as operating reserve and reactive power that are not part of the SEM, are procured and paid for by the Transmission System Operators (TSOs), EirGrid and SONI17, on a jurisdictional basis. In February 2008 the SEM Committee published a High Level Decision paper providing a policy framework for the harmonisation of AS across the island.

Throughout 2008, a number of workshops were held to discuss the detailed potential harmonised arrangements with industry participants. Subsequently in September the SEM Committee approved and published a consultation paper containing the TSOs’ detailed proposals for implementing harmonised arrangements for AS. Taking on board comments to the consultation, the SEM Committee found that the proposals were generally in agreement with the principles of the High Level Decision. Accordingly in early 2009 the SEM Committee made decisions on the detailed harmonised all-island AS arrangements, covering:

17 SONI: System Operator Northern Ireland, owned by EirGrid plc
ELECTRICITY TRANSMISSION

- Ancillary Services:
  - Reserve;
  - Reactive Power; and,
  - Black Start.
- Generator Trip, Short Notice Declaration and Testing Charges; and,
- Generator performance Incentives to incentivise generator units to meet a number of selected Grid Code parameters in each jurisdiction.

The actual rates for the harmonised payments/charges and generator performance incentives (under these arrangements) will be the subject of a separate consultation by the TSOs in 2009. This is with a view to go-live of the harmonised all-island AS arrangements at the start of the next tariff period, i.e. 1st October 2009.

All-Island Connection Charging

In December 2007 the SEM Committee published a consultation paper requesting views on draft transmission connection charging statements. These statements were proposed by EirGrid and SONI and reflect a harmonised shallow connection charging regime for transmission-connected generators on the island. Two responses were received to this consultation. In March 2008, the comments were reviewed and presented in a Decision Paper of the Regulatory Authorities in respect of the issues raised, along with approval of the finalised transmission connection charging statements for the SEM.

All-island TLAFs

In November 2008 the SEM Committee published the all-island Transmission Loss Adjustment Factors (TLAFs) Decision Paper, providing TLAFs to apply to generators from 1st January 2009 to 31st December 2009. This follows a consultation on the TLAFs published in September 2008.

All-island Locational Signals Review

Following a consultation on a methodology in June 2008, the SEM Committee decided not to proceed with the all-island harmonisation of generator TUoS charges for the tariff year October 2008 to 30th September 2009. This was as a result of the volume and nature of the concerns raised by market participants in response to this consultation and of residual uncertainties over the impact, year-on-year tariff volatility and robustness of certain aspects of the proposed methodology.
Following this, in January 2009 the SEM Committee decided to a review of locational transmission signals, committing to a joint undertaking by the Regulatory Authorities and the System Operators to address the significant concerns raised by market participants on both TUoS and TLAFs (the latter which is already operating on an all-island basis). The SO’s will continue to consult on and develop preferred option(s) during 2009. It is expected that new arrangements for locational transmission signals will go live by Q4 2010.

**Standard Transmission Costs/ Timelines**

In September 2008 the Commission published a consultation paper with a proposed schedule of standard transmission charges and timelines, to be used to price offers for parties connecting to the electricity network. The Commission believes that such a standard pricing approach will provide more transparency and certainty on transmission related costs for proposed generators and demand customers seeking to connect to the network. A decision on the matter is expected in Q3 of 2009.
Introduction

Distribution lines are the medium and low voltage lines that carry electricity from the connection points on the transmission grid to end consumers such as houses, offices, and shops over a network known as the distribution grid. Small scale generators may also connect to the distribution grid. Similarly to the transmission network the distribution network is a monopoly activity. As such the CER regulates the charges for connecting to and using the network.

The Commission’s responsibilities with regard to the distribution network involve regulating ESB Networks (ESBN) as licensed distribution system operator (DSO). This primarily involves revenue and tariff regulation as well as licence issuing and monitoring. In carrying out these responsibilities the Commission conducts a 5 year revenue review of ESB Network’s costs incurred in owning, maintaining and operating the distribution system. Approved costs are collected through distribution tariffs that are reviewed annually. The latest five year review covers the period 2006 to 2010 and sets out the total allowed revenues over that period. DUoS tariffs are charged to suppliers on the basis of the amount of energy used by their customers, and include standing charges. There are different DUoS tariffs for different types of customers.

In accordance with EU Directive 2003/54/EC requirements for legal unbundling, the Commission published consultation papers on the new licences for the Distribution System Operator (DSO) and Distribution Asset Owner (DAO), ESB Networks and ESB respectively, in October 2008. Shortly thereafter, the Commission also published for consultation, the DSO/DAO Operating Agreement. The new licences and agreement were completed by the end of 2008. Compliance/performance monitoring commenced immediately after issue of the licences.

Distribution Revenue Review and Tariffs

In September 2008 the Commission published its determination on the Distribution System Operator’s allowed revenue for the 2009 calendar year and the Distribution Use of System (DUoS) tariffs to apply during the period from 1 January 2009 to 30 September 2009. Distribution tariffs make up approx 20% of end user tariffs, depending on customer category.

The key features of this determination are as follows:

- Allowed revenue for the Distribution System Operator was set to €737m for the 2009 calendar year;
- Distribution Use of System (DUoS) tariffs were set for the period 1 January 2009 to 30 September 2009 based on the above allowed revenue. There was an increase of 5.2% relative to the DUoS tariffs that were previously in place.

For details please see the Commission’s decision paper on ESB Networks Distribution Allowed Revenues and Use of System Tariffs18.

18 CER/08/173
The Commission also reviewed, approved and published the following distribution related documents in 2008 covering charges related to the distribution network, all of which can be found on the Commission’s website; www.cer.ie

- ESB Networks’ schedule of standard prices for generators\(^{19}\);
- ESB Networks’ schedule of operation and maintenance charges for generators (CER/08/154);
- and,
- ESB Networks’ commercial charges\(^{20}\).

**East West Interconnector**

The Commission is actively involved in promoting the development of the East West Interconnector between Ireland and Great Britain. The security of supply and competition advantages attributed to increasing the levels of interconnection for Ireland is key factors behind the drive to increase interconnection. 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. As such the advancement of the East West interconnector project remained a key priority for the Commission in 2008 with significant progress being made. The Commission and EirGrid are working closely together to ensure the completion of this project on schedule.

The main items of work in 2008 are summarised below:

- Enactment of the Electricity Regulation (Amendment) (EirGrid), Act 2008;
- Following completion of the competition design 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. Tenders were received from three parties in June 2008;
- A geotechnical and geophysical marine survey of the Irish Sea was completed in May 2008;
- Preparatory planning work has been carried out to secure the over-land section of the interconnector route.

\(^{19}\) CER/08/154
\(^{20}\) CER/08/254
The advancement of this project remains a key priority for the Commission into 2009 where a candidate will be secured for the construction of the interconnector in the first quarter of 2009, with approval to proceed being requested from Government thereafter.

Table 2.0 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>2012</td>
</tr>
<tr>
<td>Connection Point on Irish System</td>
<td>Woodlands sub-station, south Meath.</td>
</tr>
<tr>
<td>Connection Point on UK System</td>
<td>Deeside, UK</td>
</tr>
<tr>
<td>Next Steps</td>
<td>Competition result for design and construction of an interconnector and approval to proceed from the Commission – early 2009.</td>
</tr>
</tbody>
</table>
**Introduction**

The Commission has statutory responsibility for approving ESB Customer Supply (ESB CS) proposals to change electricity tariff structures and levels as well as regulating annual allowed revenues for ESB CS. The Commission also oversees the development of consumer policy as it applies to electricity customers and ensures that the correct market structures to support competition are in place.

The electricity retail market fully opened to competition in February 2005, meaning all electricity customers are entitled to choose their supplier. When a section of the market becomes competitive, it is removed from price regulation. The Large Energy User section of the market is now considered fully competitive and is no longer subject to fixed regulated tariffs since late 2007. The CER continues to work towards implementing full retail market competition in all segments of the market.

Through the Industry Governance Group forum, the Commission in conjunction with industry has contributed to the implementation of agreed market procedures, codes of practice and operational policy that governs the liberalised retail electricity market. In 2008, the Commission published an ‘Electricity Retail Market Information Report’, which provides an overview of the retail market and developments within the sector. The report indicates increased competition in the retail sector, particularly in the SME and Large Energy user sections. The Commission also notes significant competitive activity in the domestic market in 2009.

**Retail Revenue and Tariffs**

Following a period of public consultation, in September 2008 the Commission published a paper detailing the allowed revenue for ESB CS, as the Public Electricity Supplier (PES), for the period from 1st October 2008 to 30th September 2009. The published document set out the basis and calculation of the allowed cost of €160.78m and placed it in the context of the five year (2006-2010) control on PES Allowable costs. The time period covered in the current revenue review will expire at the end of the next tariff period (2009-2010); therefore in 2009 the Commission will commence a full review of the allowable costs for the next five year period with full details to be published in 2010.

The Commission continues to regulate ESB tariffs for domestic customers and small to medium sized industrial and commercial customers on an annual basis. In light of the dramatic increase in fuel prices over the first half of 2008 the Commission approved an application from ESB PES for an interim price increase of an average of 17.5% for households and SMEs to apply from the 1st August 2008. The Commission conducted a further review of tariffs in November 2008 to set tariffs from 1st January - 30th September 2009. The second half of 2008 was marked by falling fuel prices which, combined with a €15.4m over-recovery by ESB Power generation in 2007, the €300m rebate agreed with ESB to be applied to all customers, and a further €87m PSO related rebate, allowed the Commission to approve an average decrease in electricity tariffs of just less than 1% from the 1st of January 2009.
The Commission notes that electricity costs in Ireland are high relative to some other European countries. This is primarily due to the small size of the Irish market and the heavy reliance on fossil fuels to generate electricity. Figure 8.0 above shows that for an average domestic customer of ESB CS approximately 67% of their final tariff is made up from generation costs. Unlike many European countries, Ireland does not have access to cheaper generating fuels such as hydro and nuclear. Furthermore, up to €4.3 billion will have been spent upgrading and maintaining the electricity networks between 2001 and 2010 which has pushed up the network costs; this investment has been essential to maintain security of supply.

Retail Tariff Structures

In 2008, the Commission received a number of proposed changes from ESB CS to the some of the regulated tariff structures. This was deemed appropriate following the commencement of the SEM in order to ensure that tariffs charged mirror the profile of costs in the wholesale market. In May 2008 the Commission approved one of these changes for implementation and approved a further five, in principle. It was intended that these further five proposals would be adopted in the 2008-2009 tariff period. However in light of the volatile wholesale fuel prices over the first half of 2008 and the resulting interim tariff increase for households and SMEs, any changes to tariff structures were postponed, to be reviewed in 2009.

The Commission also commenced a joint review of all retail tariff structures with NIAUR at the end of 2008. This will look at comparing and contrasting the PES tariff structures north and south and make recommendations on areas for harmonisation. This work is part of a package of joint retail work with CER and NIAUR which will also review the application of k-factors in the retail market.
Licences

There were eight supply licences allocated by the Commission in 2008. The upsurge in applications is an indication of the development of a competitive market environment. Four generic and four green supply licences were issued.

The Commission continues to monitor compliance by licensees with their licence conditions. As the PES, ESBCS has particular conditions which are reviewed periodically and others on an adhoc basis. For example, in 2008 the Commission retained consultants to conduct an external audit of ESB CS’s compliance with its Economic Purchase Obligation in 2007 & 2008. The Commission will be placing a stronger emphasis on monitoring compliance across all licence holders in 2009.

Smart Metering Project

In keeping with the EU Directive on Energy End-User Efficiency and Energy Services which seeks to enable self-regulation of energy consumption by consumers, through comprehensive billing information and the use of “Time of use tariffs”, where the price of electricity varies throughout the day the Commission in conjunction with electricity and gas industry participants commenced a smart metering project in late 2007. This project remained a key priority for the Commission in 2008. Two trials will be undertaken as part of phase 1 of the Smart Metering Project; A Customer Behaviour Trial and a Technology Trial. Governance structures have been put in place with the aim of drawing on the experience and expertise of the electricity and gas market. A Smart Metering Steering Group (SM SG) and a Smart Metering Working Group (SMWG) have also been established.

The SMWG’s focus during 2008 has been on the detailed planning and implementation of Phase 1 of the project. This involves setting up and running Smart Metering Trials and completing other preparation work that will inform decisions relating to the full roll-out of an optimally designed universal Smart Metering Project.

The SMWG has been divided into four Work Streams each focusing on separate aspects of the Smart Metering Project Phase 1:

Networks: Technical design & rollout of Smart Metering infrastructure

Four vendors were selected in Aug 2008 to supply the required electricity smart metering infrastructure for phase 1 of the project:
- Elster & Energy ICT,
- Trilliant & Iskameko,
- PRI & Aclara,
- Sagem.

The various technological capabilities of the selected infrastructure will be tested through a Technology Trial involving c.6000 installed smart meters. ESB Networks commenced discussions with the selected vendors in December 2008 to agree detailed installation plans. BGN will be undertaking a similar procurement for approximately 3000 gas meters.
Customer Behaviour: Mainly focusing on the design & implementation of all aspects of the customer behavioural trials, including participant selection, communications & analysis of results.

The Customer behaviour trials (CBTs) will focus on both residential and small-to-medium enterprise (SME) electricity and gas consumers. The objective of the trials is to ascertain the potential for smart metering enabled energy efficiency initiatives to effect measurable change in consumer behaviour in terms of reductions in peak electricity demand and overall (electricity & gas) use. The initial focus has been on the electricity trials with gas to follow.

- Recruitment of all 6,400 customers (c.5,500 residential & c.900 SME) commenced in Sept 2008. The Commission is very happy with the response rate from customers – c.40% acceptance.
- Installation of the meters commenced in December 2008 with 250 meters installed by end-2008. All 6,400 meters are on schedule to be installed by end-May 2009.

Customers will be allocated to “control” groups & “test” groups. Various energy efficiency initiatives enabled by smart metering will be introduced to the “test” groups. These initiatives will take the form of:

- Price signals that will encourage customers to transfer some of their electricity usage away from times of the day when demand for electricity is at its peak. i.e. Time of Use Tariffs.
- Enhanced & more frequent information on electricity usage & costs for customers – via Billing, Web & Dynamic units – so as to enable self regulation of electricity consumption.

The CBTs will run until Dec 2010 and the results will feed into a Smart Metering Cost Benefit Analysis (CBA).

Tariffs: This work stream is being lead by ESB Customer Supply and will mainly focus on the design of Tariffs (Time of Use) & development of a Prepayment Market Model. The gas tariff will involve input from BGS and the gas industry.

Billing/Data: This work stream is being led by Bord Gáis Energy and will mainly focusing on data flows from the Smart Metering infrastructure to suppliers for customer behaviour trial billing options for both electricity and gas.

The Commission is working with the Economic & Social Research Institute (ESRI) to identify all information requirements to fully inform a Smart Metering Cost Benefit Analysis (CBA) to ascertain the costs and benefits of a full national roll-out of Smart Metering in Ireland. Information gathered during the different trials will feed into this analysis.

The Commission published an update report on Phase 1 of the Smart Metering project in February 2009. Further updates will be published periodically.
Introduction

The Environment team at the Commission is responsible for discharging the Commission’s regulatory functions with respect to renewable energy including the processing, issuing and monitoring of authorisations to construct and licences to generate for renewable generating stations, calculation and publication of the annual PSO Levy, approval of the fuel mix disclosed to final electricity customers and ongoing development and support of renewable energy in the SEM, including micro-generation.

Key Achievements in 2008 include:

• The Public Service Obligation (PSO) applicable for 2009 was calculated and published;
• Ireland’s average fuel mix figures and suppliers fuel mix figures for 2007 were calculated and published;
• Development and publication of a discussion paper on key issues arising from increasing levels of intermittent, non-diverse generation on the island of Ireland and its impact on the Single Electricity Market (SEM);
• Publication of a Consultation Paper regarding ESB Customer Supply’s proposed Domestic Microgenerator Export Tariff;
• Publication of a decision paper providing clarification on the application process and related conditions for the authorisation and licensing of certain classes of generating stations and the associated Statutory Instruments.

PSO Levy 2009

The PSO levy is a levy on all electricity customers and is designed to recoup the additional costs incurred by suppliers that purchase electricity from specified fuel sources, including sustainable, renewable and indigenous sources. In July 2008, the Commission published its decision paper on the PSO levy applicable for the period 1st October 2008 to 30th September 2009. This is the first levy period during which suppliers participating in the Renewable Feed in Tariff (REFIT) support scheme are entitled to receive monies under the PSO levy for additional costs incurred in purchasing the output of renewable generators in accordance with the terms and conditions of that scheme. The total amount of estimated additional costs recoverable via the 2008/09 PSO levy was determined to be negative €13,954,244. This was the net effect of the various elements making up the PSO, some of which were positive and some negative. This amount has been rolled over and will serve to reduce the levy in subsequent years.
**Fuel Mix Disclosure**

Under S.I. No. 60, 2005, the Commission is required to ensure that all suppliers provide reliable information on all bills and on 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.

In November 2008, the Commission published Ireland’s fuel mix figures for 2007. The table below outlines each of the main electricity supplier’s fuel mix figures listed by fuel type for 2007, along with the average national fuel mix figures.

**Table 3.0 Percentage supplier Fuel Mix by Fuel Type in 2007**

<table>
<thead>
<tr>
<th>SUPPLIER</th>
<th>CHP</th>
<th>COAL</th>
<th>GAS</th>
<th>RENEWABLE</th>
<th>OIL</th>
<th>PEAT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airtricity</td>
<td>0%</td>
<td>7%</td>
<td>11%</td>
<td>79%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>BGE (Supply)</td>
<td>3%</td>
<td>18%</td>
<td>52%</td>
<td>16%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>CH Power</td>
<td>9%</td>
<td>6%</td>
<td>14%</td>
<td>68%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Energia</td>
<td>1%</td>
<td>8%</td>
<td>84%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>ESBIE</td>
<td>0%</td>
<td>5%</td>
<td>90%</td>
<td>2%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>ESB Customer Supply</td>
<td>5%</td>
<td>26%</td>
<td>41%</td>
<td>9%</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Overall Ireland</td>
<td>4%</td>
<td>18%</td>
<td>55%</td>
<td>11%</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>

The Commission also published the CO2 emissions per kWh for each supplier as well as the national figure of 536kg CO2/MWh.

**Disclosure in the SEM**

In line with their respective duties the Commission and the Northern Ireland Authority for Utility Regulation (NIAUR) are progressing the implementation of fuel mix disclosure requirements in the SEM. Following consultation21, the Regulatory Authorities published a proposed decision paper in February 200822. This paper sets out the use of certificates for the calculation of fuel mix disclosure and presented further requirements and procedures relating to environmental impact information. Six parties responded to this paper. A decision paper will be published on this issue in 2009.

21 AIP/SEM/07/46  
22 SEM/08/006
Wind Generation in the SEM

Increasing levels of wind generation on the island of Ireland poses a range of challenges. In order to promote discussions regarding these challenges and their potential solutions in the context of the SEM, the Regulatory Authorities published a discussion paper regarding the policy for large-scale, intermittent non-diverse generation early in 2008\textsuperscript{23}. This paper was published in the context of the EU Climate Change Package in January of 2008 which set out obligatory renewable energy targets for Member States and in the context of the publication of the All Island Grid Study.

The discussion paper recognised that increasing wind penetration brings benefits but also poses challenges, notably in the context of system operation. From a Trading and Settlement Code perspective, the paper discussed the compensation of wind generation when constrained down, the setting of the SMP within increasing wind on the system and the payment of wind under the capacity payment mechanism. An initial response paper followed which set out the next steps to be undertaken in this regard\textsuperscript{24}.

Since the publication of the initial response paper the Regulatory Authorities have published preliminary analysis of the payment to generators under the capacity payment mechanism for the first eight months of the market\textsuperscript{25}. Further analysis is being undertaken in this regard and will continue into 2009. In addition, as part of the next steps to be undertaken, further consultation will take place on relevant dispatch and pricing issues in 2009.

Microgeneration

In 2007 the Commission published a decision paper regarding the arrangements for micro generation which addressed technical and metering issues. Then in December 2008, the Commission published a consultation regarding ESB Customer Supply’s proposed Domestic Microgenerator Export Tariff. The proposed tariff is 9c/kWh for exported electricity from micro generation installed in domestic premises of ESB Customer Supply customers that have completed the DSO requirements in relation to their micro generation for a defined period. The Commission is also working to formulate the structure and terms of reference for the inclusion of micro generation in the smart metering pilot.
Licensing

The Commission’s decision on revised processes for the authorisation and licensing of certain classes of electricity generation station came into effect in 2008 with the necessary legal provisions being enacted to support the decisions. Under the revised processes, generators with a capacity not exceeding 1 MW are deemed to be duly authorised and licensed by way of Orders and those of 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 the Orders. These Orders, entitled S.I. No. 383 of 2008 Electricity Regulation Act 1999 (Section 16(3A)) Order 2008 and S.I. No. 384 of 2008 Electricity Regulation Act 1999 (Section 14(1A)) Order 2008 respectively, are available on the CER’s website.

This change has facilitated an improved, more streamlined licensing procedure. The administrative burden on prospective generators when making applications has been reduced leading to increased efficiencies in the management and processing of applications for relevant generators.

The megawatts associated with renewable generation licences issued during 2008 are shown in Figure 10.0 below.

**Figure 10.0 Renewable Licences to Generate Issued (MW terms) in 2008.**
Gas
Introduction

The Commission’s legal functions and duties in relation to gas security of supply are outlined in SI 697 of 2007 including a duty to monitor the security of supply of natural gas over a seven-year period. Given Ireland’s heavy reliance on imported gas to meet our gas demand needs, gas security of supply in this area remains a key priority for the Commission. In 2007 over 90% of the demand in Ireland was met by imported gas from the UK.

In 2008, the Commission progressed the implementation of the European Communities (Security of Natural Gas Supply) Regulations which give effect to Directive 2004/67/EC. The new legislation places additional responsibilities on the Commission in relation to Security of Supply. These include monitoring of security of supply through the Gas Capacity Statement, ensuring security of supply, putting in place security of supply standards, the appointment of a National Gas Emergency Manager and the approval of the Natural Gas Emergency Plan.

Gas Capacity Statement 2008

In July 2008, the Commission published its annual Gas Capacity Statement in compliance with the new monitoring requirements. The statement considers forecasts of customer demand for natural gas, the sources of supply and the capacity of the gas transmission system arising from these flows for the period 2007/08 – 2014/15. Similarly to previous Statements, central demand and supply forecasts for Ireland have been developed, together with a range of demand and supply scenarios to test the ability of the transmission system to operate safely and securely under a range of conditions. The report shows, once again, that the high pressure transmission system has sufficient capacity for supplies to meet the reasonable medium-term demand growth of the base case, and that system reinforcement is needed in onshore Ireland only for local demand growth.

Figure 11.0 Composition of Historical Gas Demand
Figure 12.0 and 13.0 respectively outline projections for gas demand growth in both the residential and industrial sector as far as 2015, and compare these projections to the forecasts for the Statement’s in 2006 and 2007. The demand forecasts for the 2008 statement are substantially lower than those in the previous two years. In the residential sector this is primarily as a result of the reduction in the number of new houses expected to connect to the gas network. The reduced forecast for the industrial sector is primarily as a result of lower economic growth forecasts at the time of forecast modelling.

**Figure 12.0 Historical and future gas demand for natural gas from residential customers**

**Figure 13.0 Historical and future gas demand for natural gas from industrial and commercial customers**
SECURITY OF SUPPLY

Natural Gas Emergency Plan

A new Natural Gas Emergency Plan was developed by Gaslink, the independent system operator, in 2008. This plan was approved by the Commission and Gaslink was appointed as the National Gas Emergency Manager. The new plan replaces the previous gas emergency plans and gives Gaslink the powers to direct the emergency arrangements in the event of an emergency; all participants in the gas industry are legally obliged to follow these directions. In 2009 the Commission will work with the National Gas Emergency Manager to ensure the full implementation of the Natural Gas Emergency Plan and will establish a new group to oversee the development, implementation and testing of gas emergency plans.

The Commission has been working with the Northern Ireland Authority for Utility Regulation (“the Utility Regulator”) to develop all-island emergency arrangements, harmonised security of supply standards and obligations on suppliers, and a common position on storage. This work is progressing under the Common Arrangements for Gas (CAG) project. A Consultation paper was issued in December 2008. Work on these all-island security of supply issues will continue in 2009.

Shannon LNG


Shannon LNG proposes to construct a regasification terminal on a 104 hectare (257 acre) site located on the Shannon Estuary between Tarbert and Ballylongford in Co. Kerry. The site, which is zoned industrial by Kerry County Council, is owned by Shannon Development and Shannon LNG has an option to purchase the site subject to obtaining planning approval. Shannon Development has reserved the site as a national strategic location for large-scale maritime related industry, such as an LNG regasification terminal, primarily because of its access to relatively sheltered deep water in the Shannon Estuary. The terminal is expected to be operational in 2012/13 at the earliest.
On the 14th February 2008 the Commission and the Utility Regulator signed a Memorandum of Understanding (MoU) for the development of Common Arrangements for Gas (CAG) on an All-Island basis. The MoU sets out the high level objectives of CAG.

The Regulatory Authorities are committed to working together to establish All-Island Common Arrangements for Gas whereby all stakeholders can buy, sell, transport, and contribute to the development and planning of the natural gas market north and south of the border effectively on an all-island basis. This means that variations in the price and conditions on which gas is bought and sold will be determined by market conditions and economics, not by variations in regulatory arrangements.

The CAG Project is managed by the CER Project Office. CAG involved the setting up of:

- Governance Structures;
- Project work streams;
- Project plans; and
- Issues/Risk logs.

**Governance of the Project**

The overall responsibility for the project rests with the CAG Steering Group which is made up of members from the Commission and the Utility Regulator.

The CAG Steering Group is responsible for the:

- overall direction of the project;
- resourcing and budgets for the project;
- approval of all consultation and decision papers; and
- the tracking of project timelines and risks/ issues.

**The Project Workstreams**

In early 2008 the following CAG work streams were identified:

- Cost Benefit Analysis (CBA);
- Gas Quality;
- Single Transmission Tariff;
- Gas Industry Operations;
- Legislation;
- Licences and Contracts;
- Code Development;
- Connection Policy;
- Joint Capacity Statement;
- Security Standard and Storage;
- Planning and Development Framework;
- Retail Market Alignment.

Good progress was made during 2008 on the key decisions in the Operations, Tariffs, Gas Quality and Cost Benefit analysis work streams. These decisions form the foundation for the rest of the project.

**CAG Transmission Tariff Methodology**

The development of a harmonised transmission tariff structure in Ireland and Northern Ireland is a key objective of the CAG project as set out in the MoU signed on 14th February 2008.

Commencing in early 2008, the Commission and the Utility Regulator developed a Consultation Paper examining the issues associated with the development of a harmonised transmission tariff regime. Ireland and Northern Ireland currently employ different transmission tariff models. Ireland has adopted an Entry Exit regime since 2003 and there are currently two Entry points to the system, namely Inch and the Moffat interconnectors. There is a single Exit zone in Ireland. Separate tariffs are published for the Inch and Moffat Entry points and the Exit system. Northern Ireland adopts a different methodology where there is a postalised tariff. With this regime one tariff is paid for both entering and exiting the system. At present Northern Ireland receives all its gas across the Scotland to Northern Ireland Pipeline (SNIP) which connects to the Bord Gáis Interconnector at Twynholm in Scotland. In 2006 Northern Ireland completed construction of the South North pipeline which connects the Northern Ireland system to the Ireland system at Gormanstown in Co Meath.

The Consultation Paper set out the reform options available for harmonisation of tariffs in the two jurisdictions. The options considered were where both jurisdictions move to a fully postalised regime and also where the two jurisdictions adopt an Entry Exit model.

Following on from this the Regulatory Authorities published a Draft Conclusions Paper setting out an Entry Exit regime as the preferred approach for a harmonised transmission tariff methodology. The paper also suggested that there should be two Exit Tariff zones, one in Ireland and one in Northern Ireland. Finally the paper further discussed the treatment of the Bord Gáis...
interconnector. The Commission decided that the stranding of IC2 investment costs is not an acceptable means of mitigating any tariff implications of expected reduced IC2 throughput in the coming years, and that any mitigation measures taken must be efficient, fair and proportionate.

In December, the Regulatory Authorities published a Conclusions Paper (CER/08/263) which decided that an Entry Exit regime be adopted in Ireland and Northern Ireland and that there should be two separate Exit systems under the new CAG regime.

Figure 14.0 Map of Ireland’s Gas Transmission Network
CAG Operational Workstream

The goal of the CAG operational workstream is to produce a set of common operational arrangements which facilitate the operation of the transmission system on an all-island basis. Harmonised operational arrangements will reduce the total costs of system operation, improve overall operational efficiency and enhance security of supply on the island.

As part of the operational workstream, the Regulatory Authorities published two consultation documents and hosted two industry workshops in 2008 to discuss a number of possible options for the CAG operational regime. These consultations addressed the scope of a CAG Code of Operations and the structure and functions of a single system operator for the island. In general, there has been wide support for the harmonisation of the two systems.

CAG Gas Quality

In June of 2008 the Regulatory Authorities published a consultation on Gas Quality. This paper recommended the narrowing of the Irish Wobbe Index\(^2\) range to that of the Northern Ireland (Gas Safety Management Regulations) limits primarily on safety grounds and additionally to facilitate the flow of gas between both jurisdictions. At Gas Quality Industry Group was set up in August 2008 to examine the issues around gas quality in more detail. The Group was made up of representatives from across the industry. A workplan for the Gas Quality Industry Group was agreed at its first meeting and set out the work and topics for discussion over a three month period with a deadline of the 19th December for the publication of a report on the Group’s findings and recommendations. This report was published on 12th December 2008. A decision paper, taking account of the report will be issued in early 2009. During the course of its work, the Group identified a number of areas for further consideration. A new work plan will be drawn up for the Group after the publication of the Decision Paper setting out the proposed approach to these remaining issues. It is envisaged that this Group will continue to meet periodically to monitor and discuss developments in gas quality after the completion of this additional work.

CAG Retail Market Alignment

In October 2008, the Regulatory Authorities initiated the Retail Market Alignment Workstream of CAG with the publication of a Discussion Paper. An all-island working group consisting of the Utility Regulator and the Commission has been set up to progress the development of the retail markets of both the electricity and gas sectors on an all-island basis. The work plan for this group will be finalised in early 2009 and the approach to the development of the CAG Retail work will be established.

---

28 The Wobbe Index (WI) is the indicator of natural gas quality used in ROI.
**GAS TRANSMISSION AND DISTRIBUTION**

**Introduction**

Gas transmission pipes operate at high pressures and are used to move large volumes of natural gas. Only very large users of natural gas such as power stations are supplied directly from the transmission network. The distribution system delivers gas to each individual connection point. Distribution pipes operate at low or medium pressure and are used for delivering natural gas to low consumption customers, typically including small businesses and residential customers.

The Commission’s responsibilities with regard to the gas transmission and distribution networks involve regulating Bord Gáis Networks (BGN) to ensure it is operating as efficiently as possible. This primarily involves revenue and tariff regulation as well as licence issuing and monitoring. In carrying out these responsibilities the Commission conducts a 5 year revenue review of Bord Gáis Network’s costs, with an annual review to make adjustments and update assumptions. The latest five year review covers the period 2007/08 to 2011/12 and sets out the total allowed revenues over that period. Each year, the revenue Bord Gáis Networks is allowed to collect from customers is updated and refined. These ‘allowed revenues’ are used to calculate the transmission use of system (TUoS) tariffs and the distribution use of system (DUoS) tariffs, which are approved by the CER. TUoS and DUoS tariffs are charged to shippers on the basis of the amount of network capacity and energy used by their customers. There are different TUoS tariffs for the different parts of the transmission system and different DUoS tariffs for different types of customers.

**Transmission and Distribution Tariffs 2008/09**

In 2008 the Commission undertook the annual review for gas transmission and distribution tariffs. This is carried out as part of the current five year price control (2007/08–2012/13). The five year price control established indicative tariffs for each year of the control and the annual review involves correcting for any previous under/over recoveries and also any changes in projected demand. The 2008 review resulted in a slight increase in interconnector tariffs and a decrease in Inch and Onshore tariffs. On the distribution side there was an overall 7.1% tariff increase. This was due in part to a decrease in projected demand.

**Establishment of Gaslink**

On 4th July, 2008 Gaslink Independent System Operator Limited was established and licensed by the Commission as the System Operator for both the gas transmission and distribution networks in Ireland. Gaslink is an independent subsidiary of Bord Gáis Éireann (BGÉ). BGÉ remains the asset owner of the gas networks and operates the network through its ring-fenced division Bord Gáis Networks under the direction of Gaslink.
The unbundling of the operation of both the transmission and distribution businesses from the asset owner (i.e. the legal separation of Gaslink from BGÉ) is required by the EU Directive 2003/55/EC. This Directive is given effect by the European Communities (Internal Market in Natural Gas) (BGÉ) Regulations 2005 (SI 760 of 2005).

The establishment of Gaslink as the independent system operator is a positive development for the Irish gas market and the Commission will continue to work with Gaslink throughout 2009 in further developing the gas industry for the benefit of all market participants and customers.

**NTS Exit Reforms**

Following the sale of the UK gas distribution networks in June 2005, OFGEM, the UK Office of the Gas and Electricity Markets, sought to develop a new “enduring off-take” framework for all exit points on the UK National Transmission System (NTS). The main features of this regime were initially: the introduction of a user commitment model and of two exit capacity products – a flat capacity and a flow flexibility capacity product. The principal objectives of these reforms are to provide investment signals to the Transmission System Operator (National Grid NTS), to promote the efficient operation of the NTS and to ensure non-discriminatory access to exit capacity.

In April 2007, OFGEM published a decision for National Grid, as the Transmission System Operator in the UK, to implement the reforms as outlined in Modification 116. This decision was appealed to the Competition Commission on the grounds that the process by which OFGEM sought to bring about off-take reform was flawed. In July 2007, the Competition Commission issued a decision requesting OFGEM to review their decision with reference to a number of points raised by the Competition Commission in its decision document. Following further review of the impacts of these reforms on the different stakeholders, OFGEM issued a final decision with respect to the implementation of the Exit Reforms on 20th January 2009. This decision approved the introduction of a user commitment model for the booking of flat exit capacity but did not include the introduction of a flexible capacity product. These reforms are scheduled to be introduced on 1st April 2009 for the gas year commencing 1st October 2012.

Since the introduction of these reforms were first mooted, the Commission and its counterparts in Northern Ireland and the Isle of Man have engaged considerably with users and network operators, both up-stream and down-stream of the Moffat Exit Point, to discuss the impact of these reforms on the transportation arrangements at Moffat.

With the support of its downstream regulatory counterparts, the Commission has also engaged with OFGEM in an attempt to develop arrangements that would accommodate these reforms and counteract the security of supply and market foreclosure concerns that they raise in the Republic of Ireland, Northern Ireland and the Isle of Man. A Staff Working Paper was issued in late December 2008 outlining a number of potential options that could be pursued to mitigate the
impacts of the Exit Reforms on the three downstream jurisdictions. In their responses to this paper, industry participants broadly favoured an approach whereby a modification to the UK Code of Operations (‘the UNC’) would be raised to retain some elements of the current arrangements and thereby safeguard the use of capacity at the Moffat Exit Point for those parties with interests downstream of Moffat only.

**Bellanaboy Entry Tariff**

The Corrib Gas field is currently under development off the west coast of Ireland. Once the field is operational the gas will be transported to the main gas transmission system. Bord Gáis Networks have constructed the Mayo Galway pipeline to transport the gas from the terminal to the main gas transmission system. Under Directive 2003/55/EC the Commission is required to develop regulated Third Party Tariff Arrangements for this Mayo Galway pipeline. The resulting tariff will be known as the Bellanaboy Entry Tariff and will be charged on all gas entering the gas system through the Mayo Galway pipeline. In 2008, the Commission conducted a detailed examination of the BGN costs for building the pipeline, which the regulated tariff will be based upon. During 2009 the Commission will publish a Consultation and subsequent Decision Paper on the form of the final Bellanaboy Entry Tariff.
Introduction

The Commission is also responsible for the regulation of the retail gas market in Ireland. This primarily involves regulating Bord Gáis Energy’s (BG Energy) tariffs, promoting the development of competition in the market and overseeing the development of consumer policy to ensure consumers have adequate levels of service and protection provided to them by their suppliers.

Competition in the gas market for industrial and commercial customers has been in place since 2004 with four suppliers active in this segment. The Commission has been working with industry participants to develop market processes to support full market opening and the development of competition for the benefit of all customers. Full market opening in the Irish natural gas market took place on 1st July 2007. All gas customers are now eligible to switch supplier.

Retail Gas Tariffs 2008-09

Under Section 23 of the Gas (Interim) (Regulation) Act 2002, the Commission is responsible for regulating charges to the residential and SME non-daily metered customer sector. The tariffs charged to this customer segment are regulated according to a revenue regulated control formula (‘the Revenue Control Formula’).

In October 2007, the Commission published the latest Revenue Control Formula applicable to the residential and SME customer segment until 30th September 2012.

However, in recognition of the exceptional wholesale market circumstances that evolved throughout 2008, the Commission deviated from the normal tariff review process for the 2008/09 gas year. On 8th August 2008, the Commission approved a two-phased approach to the tariff review process for the current gas year.

In the first phase of this process, the Commission approved an interim tariff increase of 20% for the residential and SME customer sector for the period 1st September 2008 – 31st December 2008.

The second phase of the tariff review process was conducted in November 2008 for the period 1st January 2009 – 30th September 2009. The Commission published a submission from BG Energy outlining their required revenues for the 2008/09 gas year on 3rd November. On the 10th November, the Commission hosted an Open Forum at which BG Energy presented their submission to interested parties in attendance.

A final decision with respect to the applicable tariffs for the period 1st January 2009 – 30th September 2009 was published by the Commission on 1st December. This decision approved no further changes to the gas tariffs of residential and SME non-daily metered customer sector.

29 For the purpose of this section, residential and SME non-daily metered customer sector refers to those NDM customers that are revenue regulated. It does not include those price-regulated NDM customers – i.e., PVT customers.
30 CER/07/158
31 CER/08/148
decision took into account the significant change in wholesale gas prices that occurred since the Commission’s decision to apply a two-phased approach to the 2008/09 tariff review process. It was also based on the provision of a voluntary rebate of €8.5 million from BG Energy to all residential and SME non-daily metered customer sector.

As can be seen from the chart below, the actual cost of purchasing gas on the wholesale market forms a substantial, >60%, part of the total cost of natural gas delivered to consumers. BG Energy purchase gas on the UK wholesale market at prices the Commission does not have control over. However, the Commission’s strategy is to attempt to minimise this impact where possible and a benchmark mechanism was introduced in 2007. In applying this benchmark mechanism BG Energy applies a laddered approach to the purchasing of gas for each month throughout the whole year. A percentage of gas for each month ahead of the time is bought minimising the risk to consumers of exposure to volatile wholesale prices.

Figure 15.0 Components of natural gas bill
Review of the Regulated Tariff Formula (RTF) regime

The RTF regime is a regulated pricing mechanism applied to BG Energy gas consumers consuming between 264GWh and 5.5GWh of gas per annum. Prior to its introduction in April 2003, RTF eligible customers could choose from a range of BG Energy published tariffs. The RTF regime introduced a price regulation formula reflective of monthly wholesale prices and the cost of delivering gas to the customer’s premises.

The regime was designed at the time to serve two stated purposes:

- To provide a transparent market reflective pricing mechanism for the pricing of customers, thereby creating a clear target for competing suppliers; and
- To allow BG Energy to operate in an eligible market sector where sustainable competition has yet to develop.

Essentially, it acted as a means to regulate BG Energy’s prices in this newly created eligible sector and provided a benchmark against which independent suppliers could compete.

In May 2008, the Commission commenced a consultation reviewing the RTF regime and its contribution to the development of competition in the Irish gas market.

The Commission found that competition has developed gradually such that the levels of customer switching and the market shares held by competing suppliers have been growing year on year in the RTF market sector. In its final decision, the Commission retained the current RTF regulated pricing mechanism but approved certain amendments to the RTF contract offered by BG Energy improving the flexibility offered to customers. The Commission also decided to keep developments in the RTF under continuous review in the expectation that the development of sustainable competition will allow for the complete removal of price regulation in the customer sector in the future.
The Commission has a statutory responsibility to provide a complaints resolution service to customers with an unresolved dispute with their supplier or network operator. The CER’s Energy Customers Team fulfils this role for domestic and small business customers. 2007 was the first full year that the Commission had a dedicated team for customer related matters. During 2008 the Energy Customers Team built on the previous year’s work putting in place the processes and systems necessary to support the provision of this service to customers. The team’s key achievements of 2008 are:

- Development and launch of the Commission’s Energy Customers brand and website www.energycustomers.ie;
- Development and publication of a consultation paper setting out proposed Guidelines for Code of Practice on Natural Gas Prepayment Meters; and
- Implementation of a new customer management system to monitor, track and record all calls, emails and letters from customers.

The first half of 2008 saw the Energy Customers Team concentrating on the development of the Commission’s customer brand previously referred to as “Ask CER”. The Commission’s customer care team is now known as the Energy Customers Team with a supporting website www.energycustomers.ie. The website has been developed primarily to provide information for domestic and small business electricity and natural gas customers. It provides consumers with an overview of the electricity and natural gas markets in Ireland; gives information on their rights and energy suppliers’ codes of practice and also explains what to do if they experience problems with their bills, their connection to the electricity or natural gas network or some other issue relating to energy supply.

In October, the Commission launched the team and website energycustomers.ie at the Ideal Homes Exhibition in Dublin. The exhibition was held over 5 days and was attended by over 27,000 people. To coincide with the launch of the website a leaflet outlining the role of energycustomers.ie was published.

In addition to launching the Commission’s services to customers, the team monitored the levels of service being offered by suppliers to customers. A review of suppliers’ performance against their approved Customer Charters and Codes of Practice was carried out and also monitoring of the trends in complaints received from customers. During 2009 the team will be working to standardise the way in which suppliers report to them.

In order to fulfil their responsibilities as efficiently as possible and to be able to record this more accurately the Energy Customers Team implemented a new customer management IT system to monitor, track and document all calls, emails and letters from customers. It also provides for more accurate recording of the number and type of complaints being received, the identification of trends in customer issues and allows the Energy Customers Team to run regular reports.

Further information on the operational and project work carried out by the Energy Customers Team can be found in the Energy Customers Team Annual Report available on www.energycustomers.ie.
CER Operations
The Operations division of the CER consists of a HR Department, the Business Information Centre and the Finance Department. Together these three areas are involved in driving efficiency gains throughout the organisation, in their respective roles.

CER Human Resources Strategy

The quality and expertise of the Commission’s staff is central to the Commission’s ability to achieve its regulatory objectives. Following the implementation of the Commission’s HR Strategy in 2007 the Commission continues to develop the HR function in the areas of performance management, management development, career development and internal communications within the organisation. Through the HR Strategy programmes the Commission can be confident that staff skills are being developed in such a way that stakeholders will continue to receive a quality value for money service.

Recruitment

Recruitment during 2008 focused on the CER’s Graduate Programme and also on filling a number of analyst and manager level positions. Three successful applicants were selected to commence the Commission’s 24 month Graduate Programme in October 2008. The graduate programme provides members with valuable exposure to a wide range of the Commission’s activities.

Health and Safety

The Commission continued to promote the importance of Health and Safety at the workplace throughout 2008, with the introduction of an updated Safety Statement, and through hosting a dedicated five day Health and Safety focused programme. There were a number of health and safety training activities carried out this year including, Health & Safety Officer, Fire Warden, Occupational First Aid and Health and Safety in the workplace courses. No serious accidents occurred during 2008. The health and safety plan for 2009 includes training for VDU (Visual Display Unit) assessors and assessments, manual handling training for all employees, and any refresher training that may be required.
CER BUSINESS INFORMATION CENTRE

Records Management and Knowledge Management Structures

The Commission’s Business Information Centre (BIC) is responsible for the coordination and management of its internal information and records management resources. In order to ensure efficiency and accuracy in the regulatory decision making process it is imperative that the Commission has ease of access to all relevant information.

The BIC has been working since 2007 to improve the Commission’s records and knowledge management structures. Indeed progressing this area was one of the Commission’s ten key tasks for 2008. The focus in this area during 2008 was the procurement of a suitable electronic records management system, capable of meeting the Commission’s information management needs and the implementation of the appropriate records management policies and procedures. A tendering process was carried out resulting in the selection and appointment of a suitable service provider in late 2008. The BIC is currently in the process of designing and implementing the new system.

While improving efficiency within the organisation and our services to our stakeholders, robust records management structures will also ensure the Commission enhances its ability to respond efficiently to any requests received under FOI law while also maintaining standards in relation to Data Protection.

FOI

The Commission received nine FOI requests in 2008 from individuals, journalists and business/interest groups. The Commission provides full details of its FOI service on its website or alternatively by contacting the FOI Officer at the Commission.

CER Consultation Process

The BIC also completed a review of the CER’s consultation process in 2008. The aim of the review was to identify and address any areas of weakness within the consultation process. A key addition to the consultation process resulting from this review was the ‘Open Forum on electricity and natural gas tariffs for 2009’, held in November 2008. The purpose of this forum was to enable both Bord Gáis Energy and ESB Customer Supply to present their proposals for tariffs to apply from 1 January 2009 while also providing a platform for interested parties to understand and question these proposals. The event was well attended by members of industry, small businesses, consumer representatives and the public. This type of public forum is a positive contribution to a clear and transparent consultation process and improves access to the relevant information and
engagement with affected parties. The Commission intends to hold a similar forum as part of the annual electricity and natural gas retail tariff reviews in 2009. In addition the Commission held its first Annual Open Day in January 2008. The event focused on the Commission’s work programme and key tasks for 2008. This event will also become an annual fixture and serves as an opportunity for the Commission to gain the views of its stakeholders on a wide variety of topics at the start of each working year.

Information Requests

The BIC is responsible for coordinating responses to all queries received to the info@cer.ie mailbox. This central coordination ensures that responses are provided in an efficient and timely manner. The Commission’s Customer Charter outlines its commitments with regard to customer service including response times to queries. The Commission is continually striving to meet and beat the commitments outlined in the charter. A significant volume of queries (>580) was received in 2008.
Financial Statements
For Year end 31 December 2008

Report of the Commission 71
Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas 73
Statement of Members’ Responsibilities 75
Statement on Internal Financial Control 76
Statement of Accounting Policies 78
Income and Expenditure Account 80
Statement of Total Recognised Gains and Losses 81
Balance Sheet 82
Cashflow Statement 83
Notes to the Financial Statements 84
I have pleasure in presenting the audited financial statements of the Commission for Energy Regulation for the year ended 31 December 2008.

Financial Year

The accounting period consists of twelve months to 31 December 2008.

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 at end December, 2008 were Mr Michael Guilfoyle (Chairperson - external), Commissioner Dermot Nolan, Dr Paul McGowan and Mr Maurice Carey (external). Mr Michael G. Tutty (who became Chairman of the Commission in late 2008) withdrew from the Committee on the appointment during 2008 of Commissioner Dermot Nolan. The Committee’s main functions are to advise on how the Commission is managing key financial and operational risks, to evaluate the effectiveness of internal financial controls, to appraise value for money issues and to monitor implementation of Commission decisions arising from Audit Committee recommendations.

During 2008, the Audit Committee carried out the following functions

- Following a competitive process, it appointed Helm Tribal as internal auditors for the 3 year period June 2008 to June 2011
- It prepared and received Commission approval for a revised Charter governing its activities
- It reviewed an Internal Audit Strategic Plan, prepared by the internal auditors, for the next three years
- On foot of that Plan, it reviewed during 2008 two Audit Reports on areas identified by the internal auditors as requiring attention arising out of their review of the PricewaterhouseCooper’s (previous internal auditors) Audit Report entitled “Review of Internal Financial Controls December 2007”; it also agreed a programme of work for the first 6 months of 2009.
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 2008 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
13 July 2009
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.

Michael G. Tutty
On behalf of the Commission
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 2008.

On behalf of the Commission

Michael G. Tutty
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. Pensions

A defined-benefit pension scheme is in place for all employees of the Commission for Energy Regulation. The scheme is funded by contributions from the Commission and employees, which are transferred to a separate trustee administered fund.

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 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.

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using the projected unit’s method. An excess of scheme liabilities over scheme assets is presented on the Balance Sheet as a liability.

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 2008

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy</td>
<td>5,372,813</td>
<td>5,311,139</td>
<td>10,683,952</td>
<td>15,282,720</td>
</tr>
<tr>
<td>Licensing Fees</td>
<td>10,000</td>
<td>50,971</td>
<td>60,971</td>
<td>111,805</td>
</tr>
<tr>
<td>Other Income</td>
<td>15</td>
<td>204,326</td>
<td>204,341</td>
<td>181,799</td>
</tr>
<tr>
<td><strong>Gross Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,382,828</td>
<td>5,566,436</td>
<td>10,949,264</td>
<td>15,576,324</td>
</tr>
<tr>
<td>Transfer from / (to) capital account</td>
<td>60,977</td>
<td>211,950</td>
<td>272,927</td>
<td>681,826</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,443,805</td>
<td>5,778,386</td>
<td>11,222,191</td>
<td>16,258,150</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Wages &amp; Salaries</td>
<td>1,667,480</td>
<td>3,164,634</td>
<td>4,832,114</td>
<td>4,532,983</td>
</tr>
<tr>
<td>Pension Costs</td>
<td>175,757</td>
<td>306,243</td>
<td>482,000</td>
<td>729,000</td>
</tr>
<tr>
<td>Recruitment and Training</td>
<td>120,669</td>
<td>158,672</td>
<td>279,341</td>
<td>251,458</td>
</tr>
<tr>
<td>Travel &amp; Subsistence</td>
<td>51,016</td>
<td>72,355</td>
<td>123,371</td>
<td>126,554</td>
</tr>
<tr>
<td>Office Accommodation Expenses</td>
<td>277,080</td>
<td>543,074</td>
<td>820,154</td>
<td>511,582</td>
</tr>
<tr>
<td>IT &amp; Communications</td>
<td>103,536</td>
<td>243,349</td>
<td>346,885</td>
<td>200,143</td>
</tr>
<tr>
<td>Office Service Costs</td>
<td>35,338</td>
<td>44,521</td>
<td>79,859</td>
<td>70,508</td>
</tr>
<tr>
<td>Insurance Premiums</td>
<td>18,533</td>
<td>36,568</td>
<td>55,101</td>
<td>55,179</td>
</tr>
<tr>
<td>Advertising</td>
<td>71,848</td>
<td>73,146</td>
<td>144,994</td>
<td>86,846</td>
</tr>
<tr>
<td>Professional &amp; Consultancy Fees</td>
<td>1,366,934</td>
<td>1,658,405</td>
<td>3,025,339</td>
<td>6,591,080</td>
</tr>
<tr>
<td>SEM Committee Fees</td>
<td>0</td>
<td>121,070</td>
<td>121,070</td>
<td>0</td>
</tr>
<tr>
<td>Audit fees</td>
<td>4,356</td>
<td>8,844</td>
<td>13,200</td>
<td>13,200</td>
</tr>
<tr>
<td>Internal Audit plus Process Audit fees</td>
<td>27,172</td>
<td>23,511</td>
<td>50,683</td>
<td>19,579</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>21,392</td>
<td>54,155</td>
<td>75,547</td>
<td>64,993</td>
</tr>
<tr>
<td>Depreciation</td>
<td>94,551</td>
<td>264,262</td>
<td>358,813</td>
<td>399,808</td>
</tr>
<tr>
<td>Loss on Disposal of Leasehold Improvement</td>
<td>73</td>
<td>5,159</td>
<td>5,232</td>
<td>986,529</td>
</tr>
<tr>
<td><strong>Surplus / (Deficit) for the year</strong></td>
<td></td>
<td></td>
<td></td>
<td>14,639,442</td>
</tr>
<tr>
<td>Surplus / (Deficit) for the year</td>
<td>1,408,070</td>
<td>(999,582)</td>
<td>408,488</td>
<td>1,618,708</td>
</tr>
<tr>
<td>Surplus brought forward</td>
<td>1,001,331</td>
<td>6,325,421</td>
<td>7,326,752</td>
<td>5,708,044</td>
</tr>
<tr>
<td><strong>Operating Surplus at 31 December</strong></td>
<td></td>
<td></td>
<td></td>
<td>7,326,752</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 12 form part of these Financial Statements

Michael G. Tutty
On behalf of the Commission
# Statement of Total Recognised Gains and Losses

for the year ended 31 December 2008

<table>
<thead>
<tr>
<th>Description</th>
<th>Notes</th>
<th>2008 Total</th>
<th>2007 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Surplus</td>
<td></td>
<td>408,488</td>
<td>1,618,708</td>
</tr>
<tr>
<td>Actual return less expected return on scheme assets</td>
<td>8 (bii)</td>
<td>(2,288,833)</td>
<td>(687,000)</td>
</tr>
<tr>
<td>Experience gains / (losses) on pension scheme liabilities</td>
<td>8 (d)</td>
<td>(877,000)</td>
<td>445,000</td>
</tr>
<tr>
<td>Changes in assumptions underlying the present value of pension scheme liabilities</td>
<td>8 (bii)</td>
<td>67,000</td>
<td>1,317,000</td>
</tr>
<tr>
<td>Transfers in for prior service</td>
<td>8 (biii)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Actuarial (Loss) / Gain</td>
<td></td>
<td>(3,098,833)</td>
<td>1,075,000</td>
</tr>
<tr>
<td><strong>Total Recognised (Losses)/Gains relating to the Financial Year</strong></td>
<td></td>
<td>(2,690,345)</td>
<td>2,693,708</td>
</tr>
</tbody>
</table>

The cumulative loss recognised from actuarial gains and losses arising in the last four years amounts to €3,390,598.

## Movement in Pension Reserve

<table>
<thead>
<tr>
<th>Description</th>
<th>Notes</th>
<th>2008 Total</th>
<th>2007 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January</td>
<td></td>
<td>(1,760,473)</td>
<td>(2,835,473)</td>
</tr>
<tr>
<td>Actuarial (Loss) / Gain</td>
<td></td>
<td>(3,098,833)</td>
<td>1,075,000</td>
</tr>
<tr>
<td>Balance at 31 December</td>
<td></td>
<td>(4,859,306)</td>
<td>(1,760,473)</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 12 form part of these Financial Statements

Michael G. Tutty
On behalf of the Commission
## BALANCE SHEET

as at 31 December 2008

<table>
<thead>
<tr>
<th></th>
<th>Notes</th>
<th>2008 Euro</th>
<th>2007 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible Assets</td>
<td>4</td>
<td>3,346,193</td>
<td>3,619,120</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>5</td>
<td>903,188</td>
<td>279,170</td>
</tr>
<tr>
<td>Cash at Bank and in hand</td>
<td></td>
<td>536,127</td>
<td>674,633</td>
</tr>
<tr>
<td>Short Term Deposits</td>
<td></td>
<td>6,638,599</td>
<td>7,235,575</td>
</tr>
<tr>
<td><strong>Creditors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Amounts falling due within one year)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>6</td>
<td>1,050,981</td>
<td>1,197,099</td>
</tr>
<tr>
<td><strong>Net Current Assets excluding pension Liability</strong></td>
<td></td>
<td>7,026,934</td>
<td>6,992,279</td>
</tr>
<tr>
<td>Pension Liability</td>
<td>8(bi)</td>
<td>(4,151,000)</td>
<td>(1,426,000)</td>
</tr>
<tr>
<td><strong>Net Current Assets including pension Liability</strong></td>
<td></td>
<td>2,875,934</td>
<td>5,566,279</td>
</tr>
<tr>
<td><strong>Total Assets Less Current Liabilities</strong></td>
<td></td>
<td>6,222,127</td>
<td>9,185,399</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financed by</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Account</td>
<td>7</td>
<td>3,346,193</td>
<td>3,619,120</td>
</tr>
<tr>
<td>Income and Expenditure Account</td>
<td>9</td>
<td>7,735,240</td>
<td>7,326,752</td>
</tr>
<tr>
<td>Pension Reserve</td>
<td></td>
<td>(4,859,306)</td>
<td>(1,760,473)</td>
</tr>
<tr>
<td>Reserves including pension liability</td>
<td></td>
<td>6,222,127</td>
<td>9,185,399</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 12 form part of these Financial Statements

Michael G. Tutty  
On behalf of the Commission
## CASHFLOW STATEMENT

for the year ended 31 December 2008

<table>
<thead>
<tr>
<th>Reconciliation of operating surplus to net cash inflow from operating activities</th>
<th>2008 Euro</th>
<th>2007 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus / (Deficit) on Income and Expenditure</td>
<td>408,488</td>
<td>1,618,708</td>
</tr>
<tr>
<td>Difference between Pension Costs and Employers Contribution</td>
<td>(373,834)</td>
<td>(63,317)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>358,813</td>
<td>399,808</td>
</tr>
<tr>
<td>Bank Interest</td>
<td>(203,621)</td>
<td>(181,519)</td>
</tr>
<tr>
<td>Transfer (from) / to capital account</td>
<td>(272,927)</td>
<td>(681,826)</td>
</tr>
<tr>
<td>(Increase) / Decrease in Debtors</td>
<td>(624,019)</td>
<td>150,246</td>
</tr>
<tr>
<td>(Decrease) / Increase in Creditors</td>
<td>146,119</td>
<td>(1,408,959)</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>10,232</td>
<td>986,529</td>
</tr>
<tr>
<td>Net Cash Inflow / (Outflow) From Operating Activities</td>
<td>(842,987)</td>
<td>819,670</td>
</tr>
</tbody>
</table>

### Cash Flow Statement

| Net cash inflow / (outflow) from operating activities | 842,987 | 819,670 |

### Returns on Investments

- bank interest 203,621 181,519

### Capital expenditure

- purchase of fixed assets (96,117) (704,511)

### Management of Liquid Resources

- short term deposits 596,976 (730,732)

### Financing - Increase in Debt

0 0

### Increase / (Decrease) in Cash Balances

(138,507) (434,054)

### Reconciliation of net cash flow to movement in net funds

| Increase / (Decrease) in cash in hand in the period | (138,507) | (434,054) |
| Cash used to increase/(decrease) liquid resources | (596,976) | 730,732 |
| Cash (Inflow) / Outflow from increase/ reduction in Debt | 0 | 0 |

| Change in net funds | 735,483 | 296,678 |
| Opening Net funds | 7,910,209 | 7,613,531 |

| Closing Net funds | 7,174,726 | 7,910,209 |

The Statement of Accounting Policies and Notes 1 to 12 form part of these Financial Statements

Michael G. Tutty
On behalf of the Commission
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. Commissioner Michael G. Tutty was appointed as Chairperson on 13 October 2008. The other two Members of the Commission are Mr. Tom Reeves and Mr. Dermot Nolan who commenced his appointment with the Commission on 1 July 2008.

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></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation</td>
<td>0</td>
<td>1,346,705</td>
<td>1,346,705</td>
<td>2,698,595</td>
</tr>
<tr>
<td>Transmission</td>
<td>1,796,572</td>
<td>1,361,968</td>
<td>3,158,540</td>
<td>4,222,000</td>
</tr>
<tr>
<td>Distribution</td>
<td>1,796,572</td>
<td>1,361,964</td>
<td>3,158,536</td>
<td>4,221,996</td>
</tr>
<tr>
<td>Supply</td>
<td>0</td>
<td>1,240,502</td>
<td>1,240,502</td>
<td>2,455,221</td>
</tr>
<tr>
<td>Shipping</td>
<td>1,779,669</td>
<td>0</td>
<td>1,779,669</td>
<td>1,684,908</td>
</tr>
<tr>
<td>Other</td>
<td>5,372,813</td>
<td>5,311,139</td>
<td>10,683,952</td>
<td>15,282,720</td>
</tr>
</tbody>
</table>

Other Income

<table>
<thead>
<tr>
<th>Activity</th>
<th>2008 Bank Interest</th>
<th>2008 Other</th>
<th>2007 Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Interest</td>
<td>0</td>
<td>203,621</td>
<td>181,519</td>
</tr>
<tr>
<td>Other</td>
<td>15</td>
<td>705</td>
<td>720</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>204,326</td>
<td>181,799</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

3. Employees and Remuneration

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>1,521,194</td>
<td>2,888,209</td>
<td>4,409,403</td>
<td>4,147,081</td>
</tr>
<tr>
<td>Employer PRSI</td>
<td>146,286</td>
<td>276,425</td>
<td>422,711</td>
<td>385,902</td>
</tr>
<tr>
<td></td>
<td>1,667,480</td>
<td>3,164,634</td>
<td>4,832,114</td>
<td>4,532,983</td>
</tr>
<tr>
<td>Number of Employees as at 31.12.2008</td>
<td>23</td>
<td>45</td>
<td>68</td>
<td></td>
</tr>
</tbody>
</table>

The salaries of the Members of the Commission totalled €554,709. The Commission comprises Mr. Michael G. Tuty, Chairperson; Mr. Tom Reeves, Member and Mr. Dermot Nolan, M ember.

4. Tangible Assets

<table>
<thead>
<tr>
<th></th>
<th>Leasehold Improvement Euro</th>
<th>Fixtures &amp; Fittings Euro</th>
<th>Office Equipment Euro</th>
<th>Computer Hardware Euro</th>
<th>Computer Software Euro</th>
<th>Total Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>At 31 December 2007</td>
<td>2,960,977</td>
<td>736,250</td>
<td>264,209</td>
<td>345,037</td>
<td>219,147</td>
</tr>
<tr>
<td></td>
<td>Additions</td>
<td>0</td>
<td>170</td>
<td>4,301</td>
<td>27,310</td>
<td>64,337</td>
</tr>
<tr>
<td></td>
<td>Disposals</td>
<td>0</td>
<td>(97,252)</td>
<td>(26,652)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>At 31 December 2008</td>
<td>2,960,977</td>
<td>639,168</td>
<td>241,858</td>
<td>372,347</td>
<td>283,484</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<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>
</tr>
<tr>
<td></td>
<td>Charge for the year</td>
<td>118,441</td>
<td>91,787</td>
<td>31,962</td>
<td>47,863</td>
<td>68,759</td>
</tr>
<tr>
<td></td>
<td>Disposals</td>
<td>0</td>
<td>(87,480)</td>
<td>(26,192)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>At 31 December 2008</td>
<td>265,651</td>
<td>260,819</td>
<td>118,322</td>
<td>321,234</td>
<td>185,615</td>
</tr>
<tr>
<td>Net Book Value</td>
<td>At 31 December 2008</td>
<td>2,695,326</td>
<td>378,349</td>
<td>123,536</td>
<td>51,113</td>
<td>97,869</td>
</tr>
<tr>
<td></td>
<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>
</tr>
</tbody>
</table>
5. Debtors (due within one year)

<table>
<thead>
<tr>
<th>Description</th>
<th>2008 Euro</th>
<th>2007 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy - Gas</td>
<td>365</td>
<td>65,799</td>
</tr>
<tr>
<td>Levy - Electricity</td>
<td>687,137</td>
<td>127,992</td>
</tr>
<tr>
<td>SEM Costs due from NIAUR</td>
<td>91,150</td>
<td>54,983</td>
</tr>
<tr>
<td>Other</td>
<td>9,950</td>
<td>0</td>
</tr>
<tr>
<td>Prepayments</td>
<td>114,586</td>
<td>30,396</td>
</tr>
<tr>
<td></td>
<td>903,188</td>
<td>279,170</td>
</tr>
</tbody>
</table>

The Single Electricity Market (‘SEM’) was established in November 2007. The legal framework establishes new powers and duties for the Commission and Northern Ireland Authority for Utility Regulation in relation to the regulation of the SEM. Costs are shared in equal proportions with respect to SEM Committee fees and consultancy support.

6. Creditors (Amounts falling due within one year)

<table>
<thead>
<tr>
<th>Description</th>
<th>2008 Euro</th>
<th>2007 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Creditors</td>
<td>(24,173)</td>
<td>264</td>
</tr>
<tr>
<td>Accrual - Rent</td>
<td>0</td>
<td>34,328</td>
</tr>
<tr>
<td>Accrual - Consultancy and Professional fees</td>
<td>543,169</td>
<td>776,235</td>
</tr>
<tr>
<td>Accrual - Other Creditors</td>
<td>170,898</td>
<td>92,153</td>
</tr>
<tr>
<td>PAYE / PRSI</td>
<td>299,594</td>
<td>260,931</td>
</tr>
<tr>
<td>Payroll</td>
<td>(736)</td>
<td>1,005</td>
</tr>
<tr>
<td>Professional Services Withholding Tax</td>
<td>62,229</td>
<td>32,183</td>
</tr>
<tr>
<td></td>
<td>1,050,981</td>
<td>1,197,099</td>
</tr>
</tbody>
</table>
### 7. Capital Account

<table>
<thead>
<tr>
<th></th>
<th>2008 Gas</th>
<th>2008 Electricity</th>
<th>2008 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>877,293</td>
<td>2,741,827</td>
<td>3,619,120</td>
</tr>
<tr>
<td>Funds allocated to acquire fixed assets</td>
<td>32,426</td>
<td>63,691</td>
<td>96,117</td>
</tr>
<tr>
<td>Amount amortised in line with asset depreciation</td>
<td>(91,680)</td>
<td>(267,131)</td>
<td>(358,812)</td>
</tr>
<tr>
<td>Amortisation in respect of fixed assets disposed of</td>
<td>(1,723)</td>
<td>(8,509)</td>
<td>(10,232)</td>
</tr>
<tr>
<td>Net amount of transfer</td>
<td>(60,977)</td>
<td>(211,950)</td>
<td>(272,927)</td>
</tr>
<tr>
<td></td>
<td>816,316</td>
<td>2,529,877</td>
<td>3,346,193</td>
</tr>
</tbody>
</table>

### 8. Pensions

#### a) Pension Costs

<table>
<thead>
<tr>
<th></th>
<th>2008 €’000</th>
<th>2007 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current service cost</td>
<td>695</td>
<td>884</td>
</tr>
<tr>
<td>Interest Cost</td>
<td>392</td>
<td>341</td>
</tr>
<tr>
<td>Expected return on Scheme Assets</td>
<td>(394)</td>
<td>(295)</td>
</tr>
<tr>
<td>Less: Employees Contributions</td>
<td>(211)</td>
<td>(201)</td>
</tr>
<tr>
<td>Total</td>
<td>482</td>
<td>729</td>
</tr>
</tbody>
</table>

#### bi) Net Pension Liability

<table>
<thead>
<tr>
<th></th>
<th>2008 €’000</th>
<th>2007 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of funded obligations</td>
<td>8,326</td>
<td>6,464</td>
</tr>
<tr>
<td>Fair value of scheme assets</td>
<td>(4,175)</td>
<td>(5,038)</td>
</tr>
<tr>
<td>Net Liability (Asset)</td>
<td>4,151</td>
<td>1,426</td>
</tr>
</tbody>
</table>

#### bii) Present Value of Scheme Obligations at beginning of year

<table>
<thead>
<tr>
<th></th>
<th>2008 €’000</th>
<th>2007 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Service Cost</td>
<td>695</td>
<td>885</td>
</tr>
<tr>
<td>Interest Cost</td>
<td>392</td>
<td>341</td>
</tr>
<tr>
<td>Actuarial (Gain) / Loss</td>
<td>810 (1,762)</td>
<td></td>
</tr>
<tr>
<td>Benefits Paid</td>
<td>(19)</td>
<td>356</td>
</tr>
<tr>
<td>Premiums Paid</td>
<td>(16)</td>
<td>0</td>
</tr>
<tr>
<td>Present Value of Scheme Obligations at end of year</td>
<td>8,326</td>
<td>6,464</td>
</tr>
</tbody>
</table>
8. Pensions (Continued)

<table>
<thead>
<tr>
<th>Description of Scheme and Actuarial Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The pension scheme is a defined benefit final salary pension arrangements with benefits defined by reference to current &quot;model&quot; public sector scheme regulations. Employer and employee contribution rates are set having regard to actuarial advice and periodic review on the funding rate required for the scheme. The scheme provides a pension (eightieths per year of service), a gratuity or lump sum (three eightieths per year of service) and spouse’s and children’s pensions. Normal Retirement Age is a member’s 65th birthday, and pre 2004 members have an entitlement to retire without actuarial reduction from age 60. Pensions in payment (and deferment) normally increase in line with general public sector salary inflation.</td>
</tr>
</tbody>
</table>

The Financial assumptions used for FRS17 purposes were:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>5.70%</td>
<td>5.50%</td>
</tr>
<tr>
<td>Salary Increases</td>
<td>4.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Pension Increases</td>
<td>3.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>Inflation Increases</td>
<td>2.25%</td>
<td>2.25%</td>
</tr>
<tr>
<td>Long term rate of return on assets</td>
<td>7.43%</td>
<td>7.09%</td>
</tr>
</tbody>
</table>

The current practice of increasing pensions in line with public sector salary inflation is taken into account in measuring the defined benefit obligation.
Assumptions regarding future mortality experience are set based on published mortality tables (PMA92/PFA92) prepared for the Actuarial Profession in the U.K. by the Continuous Mortality Investigation Bureau tables. The mortality assumptions chosen are based on standard tables reflecting typical pensioner mortality and they allow for increasing life expectancy over time.

The weighted average life expectancy, for post-retirement mortality tables used to determine benefit obligations at:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male Member age 65 (current life expectancy)</td>
<td>20.7</td>
<td>19.0</td>
</tr>
<tr>
<td>Male Member age 40 (life expectancy at age 65)</td>
<td>21.8</td>
<td>20.2</td>
</tr>
</tbody>
</table>

The scheme assets at the year end comprised:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>70.2%</td>
<td>79.6%</td>
</tr>
<tr>
<td>Bonds</td>
<td>16.9%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Property</td>
<td>9.1%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Other</td>
<td>3.8%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual return less expected return on scheme assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual Return</td>
<td>(1,895)</td>
<td>(392)</td>
</tr>
<tr>
<td>Less: Expected return</td>
<td>(394)</td>
<td>(295)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(2,289)</td>
<td>(687)</td>
</tr>
</tbody>
</table>

In developing the expected long-term rate of return on assets assumption, the Commission considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 7.43% assumption.
g) Prior pensionable service

The assets and liabilities of the pension schemes relate to retirement benefits arising from service with the Commission. Two Commission members and six staff members have superannuation entitlements arising from service with other public sector bodies prior to their joining the Commission. 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.
9. 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 €5,325,839 was taken into account in determining the levy order for 2009. The accumulated surplus attributed to the gas sector of €2,409,401 was taken into account in determining the levy order for 2009.

10. 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.

11. Commitments - Capital and Others

11.1 Capital Commitments:

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

11.2 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.

12. Approval of Financial Statements

The Commission approved these financial statements on 10 July 2009.
Commission Work Programme 2009

Our Ten Key Work Items

Our ten key work items for 2009 are as follows:

- Key Task 1 - Common Arrangements for Gas
- Key Task 2 - Implementation of Gate 3 Renewable Connection Decision
- Key Task 3 - Development of electricity & gas retail sector and tariff structures
- Key Task 4 - Development of SEM
- Key Task 5 - Smart metering Project
- Key Task 6 - Five yearly reviews of electricity transmission, distribution and supply
- Key Task 7 - East West Interconnection
- Key Task 8 - Discharge Safety Responsibilities for Gas and Electricity
- Key Task 9 - energycustomers.ie
- Key Task 10 - CER’s 5 Year Strategic plan

Full details of the Commission’s work programme for 2009 can be found on the CER’s website; www.cer.ie (CER09016)
CER Organisational Structure (End 2008)