Endesa Ireland response to the Commission for Energy Regulation’s
Draft Strategic Plan

Endesa Ireland Ltd. welcomes the consultation paper on CER’s five year strategic plan. The publication of the Commission’s key objectives and proposed actions over the next five years is of key importance in an open and transparent energy market providing signals for market participants of potential changes in the regulatory framework.

The strategic goals as set out in the consultation paper have been focused on CER’s mission statement: to ensure that the lights stay on, the gas continues to flow, the prices charged are fair and reasonable, the environment is protected, and electricity and gas are supplied safely. The majority of these goals – ensuring the lights stay on, gas continues to flow, and prices charged are fair and reasonable will be ensured by the development of a fully competitive market in gas and electricity. Endesa Ireland considers that the primary focus of the Commission should be to enhance competition, thereby meeting a number of goals in the mission statement and helping to achieve the EU objective of a fully operational and competitive European market for electricity and gas. Endesa Ireland considers that effective competition is the primary tool to ensure increased security of supply and fair and reasonable prices.

Endesa Ireland also considers that effective competition cannot be achieved while the combined market-share of state-owned companies dominates the market. In 2010, the combined market shares of ESB, Bord Gáis and Bord na Mona will exceed 50% of the total generation market. Endesa Ireland considers that the Commission should support the privatisation of the state-owned companies, which will result in significant new market entry and will provide an opportunity for existing independent market participants to increase their market share.

Endesa Ireland supports the Commission’s efforts to provide top quality regulatory service and to be a standard bearer for best practice in regulation and quality of service in the Irish public sector. The key to achieving this goal will be the continued development of Commission staff in order to meet all of the key goals and strategies proposed in its strategic report. As highlighted by Iain Osbourne¹, regulation is becoming increasingly complex and the energy market within Ireland is changing rapidly. Regulatory staff must benefit from continuous training and exposure to developments in other European countries in order to ensure they have the tool sets necessary to manage the increasingly complex and rapidly changing environment.

Below are Endesa Ireland’s comments on the key questions as set out in the consultation paper:

¹ [http://ssl.jigsawmanagement.ie/eirgrid/documents/02IainOsborne.ppt](http://ssl.jigsawmanagement.ie/eirgrid/documents/02IainOsborne.ppt)
1. What must Ireland do to maintain security of electricity and gas supplies over the course of the next decade? How can carbon emissions for the energy sector be substantially reduced in the coming years?

While the price of natural gas is volatile, it is not likely there will be a medium-term shortage of natural gas. A number of new wells have been announced and new technologies have been developed giving access to previously inaccessible sources. In addition, the EU has prioritised the construction of pipelines from the Balkan States, Persian Gulf and Africa to mainland Europe and there is sufficient LNG storage throughout Europe to ensure Europe's security of supply.

Even with sufficient gas stocks, Ireland should be concerned about its high dependence on natural gas for provision of energy. As an island nation, Ireland has unique challenges in maintaining security of supply. Decreased reliance on natural gas will only come with incentives, as currently natural gas is the most economic fuel for the generation of electricity. Renewable technologies are more expensive than conventional plant and require subsidies to be profitable.

While subsidisation is outside of the remit of CER, the regulatory environment has a significant impact on the investment climate. To improve the investment climate within Ireland, CER should continue to signal their plans well in advance and should ensure that any changes to the market are necessary and proportionate.

In addition, CER can develop incentives to encourage investment in preferred technologies, those needed to meet government targets. The incentives can also be applied to ensure the investments are made in locations deemed most appropriate by the TSO. This will help to ensure security of supply by diversifying the fuel mix and strengthening the network.

Finally, investors must be assured that they will be able to recover all costs in the market. Currently, generators are unable to recover costs associated with gas transportation and secondary fuel storage. Endesa Ireland encourages CER to implement a mechanism for recovery of all costs to improve the investment climate within Ireland.

2. What impact will the current economic downturn have on the energy sector in Ireland and how can the sector play its part in the national recovery?

The largest contribution the energy sector can make to the national recovery is the delivery of Grid25, on time and within budget. This project is critical to ensuring that investment occurs within the sector, as investment will not occur if generators are unable to connect to the Grid and if industry cannot be assured of security, high quality energy supply at reasonable prices.
To date, there is insufficient transparency in relation to the project plans, costs, and progress of Grid25. Endesa Ireland considers that it is necessary for CER to develop a programme to incentivise EirGrid to complete this project on time and within budget and to closely monitor the project. Endesa Ireland also suggests that a steering group is established with representatives from Government, CER, consumer agencies and industry to bring focus and transparency to the project. This will help ensure all stakeholders are aware of the progress of the project and are in a position to develop solutions to any issues arising that might delay Grid25, to help ensure the project is delivered on time and within budget.

In addition, the improvement of the investment climate within the Irish energy sector will play a part in national recovery. Endesa Ireland considers that the publication of an SEM Development Plan would significantly increase regulatory certainty, contributing to the improvement of the investment climate. The plan should set out the short-to-medium term incremental changes that the SEM Committee is considering to improve the SEM and the changes that will be required to facilitate the move to a regional market.

The investment climate would also benefit from a revision of the connection process. The current connection application process encourages speculative connection applications, resulting in large delays in the processing of connection applications. The Commission has indicated that a review of this process will be undertaken in 2011. Endesa Ireland considers that this work should be brought forward to provide clarity for future projects.

3. **What measures can be taken to maintain prices at as low a level as possible?**

The key to keeping prices at as low a level as possible is to ensure that Ireland has fully competitive energy markets. Competitive markets will ensure that pricing reflects costs. The development of the regional markets will help to enhance competition by broadening the customer base and the number of market participants.

Endesa Ireland also considers that the Commission should look to develop competition within the Ancillary Services market. The current bilateral contracts market for ancillary services does not ensure that the most economic price is being paid for these services. The current programme to harmonise the All-Island Ancillary Services should also look to introduce competition within this market.
4. What impact will new European energy legislation have on the Irish energy sector?

The biggest impact of the new European energy legislation will be the focus on the development of the regional markets. Ireland will be required to engage with the other countries in the region to develop harmonised regional markets.

The SEM is a step-ahead of most of Europe, having successfully implemented an open, transparent regional market. Furthermore, the gas market in Ireland is not hindered by legacy contracts, which is seen as a barrier to competition in many European gas markets. However, there is little liquidity in the electricity market and the SEM would benefit from incremental changes to increase liquidity.

The European Regulators for Electricity and Gas (ERGEG) has been charged by the European Commission to develop regional market models. These models will be designed to accommodate the bilateral electricity markets and highly congested gas markets predominant throughout Europe. Endesa Ireland considers that it is imperative that Ireland actively participates in the groups developed to progress the design of the regional markets, to ensure that the regional model is appropriate for Ireland.