

26th January 2010.

Mr. Paul Fuller,
Commission for Energy Regulation,
The Exchange,
Belgard Square North,
Tallaght,
Dublin 24.

Re: CER Consultation (CER 09/189)- Proposals on a Roadmap for Derugulation

Dear Mr. Fuller,

ISME, the Irish Small & Medium Enterprises Association, the main representative body for Irish SMEs, welcomes the opportunity to respond to the consultation document on the 'Proposals on a Roadmap to Deregulation'.

Energy costs in general, but electricity prices in particular, are a significant consideration, in overall business costs for SMEs. The Association has been concerned at the level of electricity prices relative to our competitors and up until recently the lack of adequate competition, especially for smaller companies. While a recent Sustainable Energy Ireland Report, (January 2010), outlined that the gap between Irish prices and the rest of the EU was narrowing, it still confirmed that business sector electricity prices in Ireland, for the first half of 2009, were above the EU average in all consumption bands for which data is available, ranging from 9% to 23% above.

ISME believes the development of effective competition in the electricity market is essential in order to keep energy prices to Irish business as low as possible. The Association is in favour of the proposal to review the market and define a roadmap for deregulation of the retail electricity market, on the basis that it will increase competition and improve the costs of electricity to the end-user.

Price De-Regulation

It is the view of the Association that effective competition is superior to regulation and therefore, where the market is effectively competitive, the replacement of the tariff regulation is the preferable outcome. This in general has been the experience internationally.

The main issue with regard to maintaining regulated prices is the market share of the incumbent and the incentive to prevent appreciable competition to enter the marketplace. The market has been open to competition since 2005. The evidence is that there has been an increase in competition, particularly over the last number of months in both the business and residential markets. However, as acknowledged within the consultation document, all businesses are not operating in the same relevant retail market, as smaller businesses in particular, cannot exercise countervailing buyer power in response to a price change.

It is essential that the removal of price regulations leads to increased competition and in turn lower prices to business. This can only be established by ensuring that the relevant structures are in place to ensure low barriers to entry and the prevention of future dominance in the electricity supply sector.

The Association therefore agrees with the Commission proposal that regulatory price controls should be removed when competition is reached in a particular market where all the following criteria have been met:-

- (1) That there are at least three suppliers active in the relevant market where ESBPES and ESBIE combined are assumed to be the one supplier.
- (2) Where there is a minimum of 2 independent suppliers, each has at least 10% share of load (GWh) in the relevant market.
- (3) ESBPES and ESBIE combined serves or will within a defined period service 40-50% GWh in the LEU market, 40-50% GWh in the Medium-sized business market, 40-50% in the small business market.

With regard to the thresholds for the removal of the price control, in terms of the combined market share of the two ESB supply businesses (ESBPES & ESBIE), the indications are that the combined ESB market share is below the business thresholds outlined by the CER and is reducing significantly in the domestic market, with estimates that it will have reached the domestic threshold by mid June. As ISME, would like to see a competitive market as soon as possible we are proposing that the regulations are reviewed at the earliest possible date rather than waiting for the proposed date of October 2010. The sooner the market is open to full price competition the sooner that the cost of electricity will be reduced.

Regulatory Monitoring

The Association agrees with the commission's proposal to continue monitoring the market activity in the event of deregulation, to ensure that competition is not undermined and that the thresholds will not be breached to the extent that competition might exit the market, or/and a dominant supplier gains excessive influence. It is vital that deregulation benefits all customers, including smaller businesses, and that a watching brief is maintained in this regard. It is necessary that competition is sustained and that consumers are protected and the CER still has an important role in that event.

In conclusion, it is the view of the Association that the removal of price controls should be introduced as soon as possible for all business customers, including small business, and that the threshold requirements are implemented for business, even if they are not attained for the domestic sector. As outlined, it is essential that the electricity market is opened up further to competition and that the cost of electricity for smaller companies is brought down to the EU average, at a minimum, which failed to happen during the period of regulated pricing.

Yours sincerely,

Mark Fielding
Chief Executive
ISME, the Irish Small
& Medium Enterprises Association