

Response to CER 09/189

Review of the Regulatory Framework for the Retail
Electricity Market

For the attention of:

P Fuller

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Response to the Commission for Energy Regulation in relation to CER 09/189, Review of the Regulatory Framework for the Retail Electricity Market

Introduction

Kore Energy provides energy procurement and risk management services to a significant percentage of Ireland's large energy users, including global leaders in I.T., Food and Drink and Pharmaceutical industries and a large number of Ireland's leading indigenous companies. The contribution of energy costs to the relative competitiveness of Ireland as a business location is critical to Kore Energy's client base and indeed to the broader Irish economy in terms of optimising job retention and job creation in a difficult economic environment. For these reasons, we view the CER Review of the Regulatory Framework for the Retail Electricity market as a critical issue for the Irish energy market and we are pleased to contribute to the review via this submission.

Proposal 1: Market segmentation

Kore Energy supports the Commission's approach to reviewing the retail market on a segmented basis. However, we also hold the view that a more holistic approach to the review is also required. In particular, the question of sustainability of competition in one particular market segment in the event of deregulation of other segments needs to be considered. Inter-dependencies between market segments should also be considered as should the current dominance of ESB and the potential dominance of ESB in the event of deregulation of the market being completed on a segmented basis.

Proposal 2: Criteria for assessment of competition in retail market segments

Kore Energy broadly agrees with the Commission's method of assessing the level of competition in individual market segments, including the higher threshold for the domestic market. However, we are concerned that the review does not propose to consider how competition has developed to its current level. Nor does it consider how the removal of those conditions might impact the level of competition in the market and the sustainability of that competition. The application of price controls to ESB PES has clearly been a factor in the development of competition across all market segments and we would recommend that the Commission's assessment of competition should consider the impact of removing such controls.

Proposal 3: Removal of price control from ESB

Kore Energy holds the view that the removal of ESB PES price controls should only occur if it can be clearly demonstrated that this will facilitate an increase in the level of competition in individual market segments. In essence, we welcome a situation where ESB PES would compete in the liberalised electricity market as an independent entity but we favour this occurring in a manner which ensures a reasonable level of customer protection while providing for the sustainability of competition. Specifically we would like to see the Commission considering the following approach:

1. ESB PES price controls should be removed broadly in line with the conditions set out in the Commission's proposal but,

2. ESB PES and ESBIE would continue to operate as independent entities, thus ensuring the addition of a “competitor” to the market rather than the strengthening of the competitive position of the combined ESB PES / ESBIE entity.
3. ESB Power Generation and ESB Customer Supply would continue to operate as separate entities, at least until such time as the Single Electricity Market Operator (SEMO) and CER can clearly demonstrate that the re-integration will not adversely impact the ability of independent electricity suppliers to access hedging products on a competitive basis. With the Single Electricity Market operating for only 25 months at this stage, we believe that it would be difficult to prove that case at this point in time.
4. ESB PES would continue to offer a default pool pass through product to large energy users
5. ESB PES would offer some form of default tariff to other business users and domestic users
6. ESB Brand: We favour the re-branding of ESB Customer Supply (ESB PES) and ESBIE with the objective of ensuring that the retail entities of ESB do not continue to benefit from historical brand values for the wider ESB group.

Proposal 4: Bi-annual review of competitive conditions

We agree with the proposed approach and believe that it will facilitate an appropriate response to any rapid changes in market dynamics and levels of competition.

Proposal 5: Removal of price controls, Economic Purchase Obligation form ESB PES and Supplier of Last Resort Designation

Removal of the Economic Purchase Obligation form ESB PES: The Commission has not provided any clear argument as to why this would take place and we would be anxious to see the detail in favour of this move. In the interim, we believe that this obligation only serves to protect the interests of electricity users and we do not see any negative impact in terms of a distortion to market competitiveness. On this basis, we favour the retention of this obligation

Review of designation of ESB PES as the Supplier of Last Resort: We view the SOLR designation as an appropriate measure of customer protection. While the detailed arrangements might merit review in the context of the removal of ESB PES price controls, we believe that ESB PES should retain this responsibility. Where costs directly attributable to this responsibility can be clearly defined, there may be a case in favour of allocating those costs across all market participants based on volume throughput.

Proposal 6: Continued monitoring of market activity following the removal of price controls

We favour continued market monitoring as proposed. To ensure effectiveness, we recommend that the monitoring process includes the following

The completion of regular surveys of large energy users and smaller business users in order to assess customer experience

Proposal 7: Requirement for ESB and other suppliers to offer tariffs to vulnerable customers and other domestic customers

We hold the view that all independent electricity suppliers and ESB should be directed to offer such tariffs. To ensure that the provision does not act as a barrier to market entry, we would like to see an approach taken that ensures that new suppliers are exempt from the requirement until they reach a pre-determined critical mass in terms of customer numbers and electricity volume supplied.

End.