

## Newsletter

The Commission for Energy Regulation (CER) is the independent body responsible for regulating the natural gas and electricity markets in Ireland. To keep our stakeholders informed, the CER is pleased to publish this newsletter which provides an overview of some of the key Irish energy developments and work carried out by CER to date this year. It is envisaged that a second CER

newsletter will be published in December to provide a further update on the remaining months of 2010.

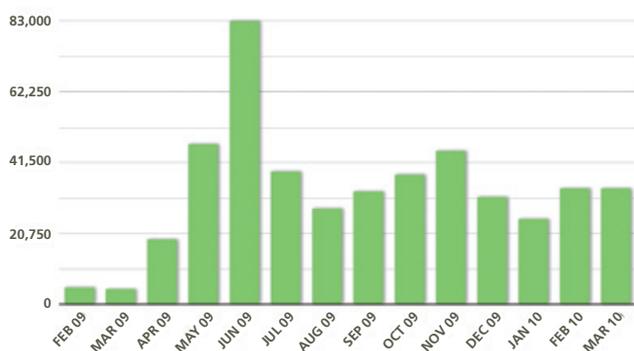
There have also been other areas of work undertaken by the CER over recent months which are not detailed in this newsletter - further information on all our work can be found on our website at [www.cer.ie](http://www.cer.ie).

### Roadmap on Electricity Price De-regulation

The Irish electricity market has seen strong levels of competition in recent times, particularly with the entry of Bord Gáis Energy and Airtricity into the domestic electricity market in early 2009.

Over 680,000 Irish customers switched electricity supplier from January 2009 through to mid 2010, facilitated by the simple, free and effective supplier switching systems approved by the CER. In other words, over this 18 month period, approximately 30% of all electricity customers switched supplier, one of the highest supplier switching rates ever seen in Europe. The graph below shows that the high monthly switching numbers seen in 2009 have continued through to this year.

**Number of Irish Electricity Customers Switching Supplier**



Given the strong competition which has developed in the electricity market, the CER published a "Roadmap" decision paper in April 2010 on the de-regulation of ESB Customer Supply's electricity prices. The CER believes that, in this competitive environment, de-regulation of electricity prices will bring further competition benefits to customers. While international fuel costs will remain the main influence on Irish electricity prices, full price competition has the potential to bring real benefits to all customers through improved choice and quality of tariff products and by putting downward pressure on prices.

The CER decided that price de-regulation of business markets will take place in October 2010 as ESB hold a combined market share of 50% or less in each of the three relevant business markets. Price-deregulation in the domestic market will be allowed once ESB Customer Supply meets a number of criteria including having a market share of 60% or less which, given the current rate of customer switching, is expected to happen in early 2011. The Roadmap decision also requires a commitment from ESB which will address, to the satisfaction of the CER, the rebranding of the ESB supply businesses prior to deregulation taking place.



## Electricity Network Charges

The costs of operating and developing the Irish electricity network, a natural monopoly, make up about one-third of the final price of electricity to Irish homes and businesses. The CER licenses EirGrid and ESB Networks Ltd. as operators of the transmission (high voltage) and distribution (low voltage) networks respectively. As regulator, the CER is responsible for setting the allowed network costs/revenues and charges, setting policy for the connection of customers and generators to the network and for resolving market participant disputes with EirGrid or ESB Networks Ltd.

In early July of this year the CER announced its 5-year revenue proposals for the networks for the years 2011 to 2015, which is called "Price Review 3" or "PR3". These revenue proposals are designed to cover the cost for EirGrid and ESB Networks Ltd to efficiently operate and expand the transmission and distribution network between 2011 and 2015. When proposing the revenue amounts, the CER's emphasis is on value for money for the end-customer and on providing for a high quality electricity network. A final decision on these proposals is expected in September.

This 5-year allowed revenue feeds into Transmission Use of System (TUoS) and Distribution Use of System (DUoS) tariffs; these are the charges that electricity generators and suppliers pay EirGrid and ESB Networks Ltd. respectively to transport electricity across the network. These charges are included by suppliers in the final cost of electricity charged to customers.

### Transmission Network

The transmission network is the "backbone" of the electricity network, made up of high voltage wires

and pylons. It transmits electricity in bulk across the country, from large generator plants to transmission nodes and large customers such as factories.

The CER is proposing a small increase in TUoS tariffs over the next five years such that they will rise by an average of circa 3% this October and 5% per annum thereafter. However this will be more than offset by falls in distribution charges (see below).

The key driver behind the increase in TUoS charges is the major transmission investment programme required for the next five years. EirGrid had requested an investment allowance of €2.1 billion but, conscious of the need for value for money, the CER proposed that the transmission investment programme be delivered for €1.45 billion through efficient and optimal management of the network. This investment will provide Ireland with a high-quality electricity supply and enable the country increase the proportion of its electricity consumption coming from renewable generation from about 15% currently to 40% by 2020.

### Distribution Network

The distribution network consists of lower voltage wires used typically to distribute electricity from the grid and small generators to our homes, shops and businesses.

The CER is proposing a 6.5% cut in the average DUoS tariff this October, with increases limited to the general rate of inflation for the remaining lifetime of PR3. A €2.31 billion distribution network investment programme is provided for - ESB Networks Ltd. requested a €2.66 billion investment programme over the next five years but the CER believes that the significant distribution network upgrade can also be achieved through productivity and efficiency improvements. PR3 also incentivises the improvement of quality of service to customers.

### Overall Impact on Network Charges

Overall, the average charge related to network costs, which comprise about one-third of a typical electricity customer's bill, will fall by over 5% this October. Please note that this is for network charges only - overall electricity prices will depend on a number of factors, especially international fuel prices, which have been volatile in recent months. This is discussed in the next section.

## Fuel & Electricity Price Movements

Electricity generation costs typically account for over half of a typical customer's electricity bill. With about 80% of electricity generation in Ireland coming from imported fossil fuels, international fuel prices - especially gas prices - are the key driver of Irish generation costs and therefore electricity prices. These are outside of Ireland's control. The fuel price movements from May 2009 to July 2010 are shown in the graph below. This shows that oil and coal prices have been trending upwards since May 2009 and that gas prices fell from May to September 2009 but have been trending upwards since. These trends will put upward pressure on our electricity prices for the next tariff year, i.e. from this October.

This is in addition to the Public Service Obligation (PSO), which is Government policy that the CER implements to support security of energy supply, the use of indigenous fuels (i.e. peat) and the use of renewable energy. Details of the PSO to apply from October were published by the CER on 30th July and will result in a circa 4% to 5% rise in average prices from this October.

Taking all of the cost elements into account - including network charges, fuel price movements and the PSO - ESB Customer Supply will shortly submit to the CER the proposed tariffs to apply for the year from October. The CER will review this for accuracy and cost reflectivity, following which it will then publish the tariffs by early September. Please

note that the CER will only be agreeing ESB tariffs for the domestic (residential) sector given that the business markets will be de-regulated from a price perspective (as discussed earlier).

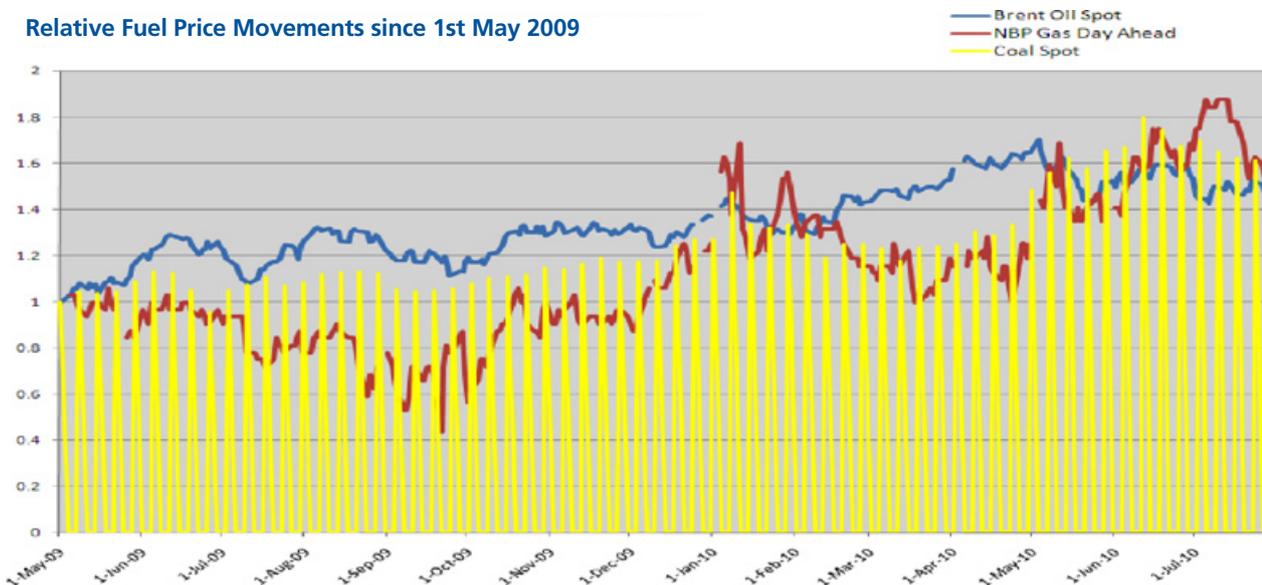
## CER Review of Bord Gáis Energy Prices

The CER issued a Consultation Paper on gas tariffs for Non-Daily Metered residential and smaller industrial and commercial customers in late July, following its annual review of Bord Gáis Energy's allowable revenue. Notwithstanding the recent international rise in gas prices, the CER is proposing that prices for these consumers will not rise from this October. This is due to three mitigating factors:

1. BG Energy purchased the gas using a benchmark (laddered approach) which spreads the purchases of gas over a period of time. Thus some of the gas for the year ahead would have been purchased since October 2009 at the lower prices that prevailed at that time.
2. The margin earned by EG energy from higher than predicted gas sales during the cold winter period is being returned to the customer.
3. Savings achieved by BG Energy beating the benchmark have been included.

A decision on the matter will be made by the CER in September.

Relative Fuel Price Movements since 1st May 2009



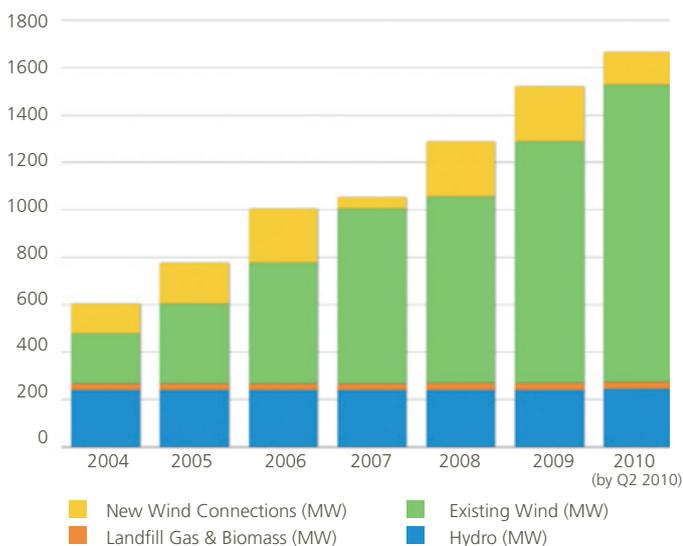
Source: Bloomberg

## Gate 3 Connection Offers

### Background

To date the CER has developed policy for connection offers to issue to three batches - known as "Gates" - of renewable generation projects. The criteria for selecting which renewable generator applicants in these Gates are made offers by EirGrid and ESB Networks Ltd. is set by the CER. Gates 1 and 2 were launched in 2004 and 2006 respectively, allowing for network connection offers to issue thereafter to about 1,700 MW of proposed wind farm projects. As a result, the amount of renewable generation in Ireland has increased dramatically in recent years, from approximately 600 MW in 2004 to about 1,700 MW by mid 2010 as shown below.

### Renewable Generator Capacity in Ireland

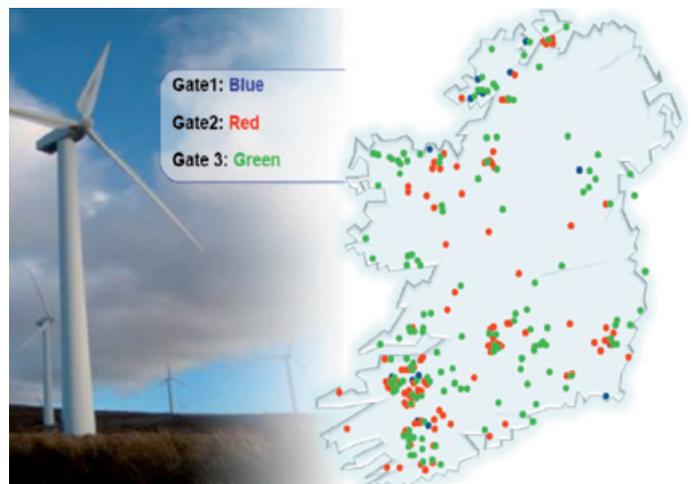


This increased connection of renewable generators means that about 15% of Ireland's electricity consumption now comes from renewable sources. This is ahead of EU targets for Ireland and means that, for a small network, Ireland is now becoming a world leader in wind power.

### CER Gate 3 Policy

In 2008 the Irish Government announced a target that 40% of Ireland's electricity consumption should come from renewable sources by 2020. On foot of this the CER launched its Gate 3 policy for renewable and non-renewable ("conventional") generator connections in 2008 and 2009. This allows for over 150 new renewable generators

(predominantly wind farms), with a combined capacity of about 4,000 MW, to connect to the network across Ireland. The following map shows the location of Gate 1, Gate 2 and proposed Gate 3 renewable generators around the country.



Source: ESB Networks

To complement the very large rise in wind farms, Gate 3 also allows for connection offers to be issued to about 1,350 MW of new conventional generator projects across the country. This includes new and efficient gas-fired power stations and pumped storage hydro plants. It will ensure that a high capacity of renewable and conventional projects can connect to the Irish network over the next decade in a way that is efficient, maintains our security of supply, promotes competition and achieves the 40% renewables target by 2020.

Bringing the Gate 3 policy formation stage to an end, in January 2010 the CER published EirGrid's scheduled firm connection dates for all of the Gate 3 projects (renewable and non-renewable) entitled to an offer. These dates were derived in accordance with the methodology set by the CER in its Gate 3 directions.

### Gate 3 Offers Issuing to Plan

Overall, Gate 3 is a highly ambitious programme as it involves connection offers being issued to about 5,400 MW of new wind farms and conventional generators combined, which will enable Ireland to meet its 40% target comfortably. For reference, it is worth noting that total generation capacity currently connected to the Irish network is about 8,500 MW. Gate 3 will therefore drive

unprecedented changes to Ireland's generation portfolio, allowing for the "greening" and modernisation of our electricity industry.

Gate 3 connection offers are being issued from EirGrid and ESB Networks over an 18 month period, from December 2009 to mid 2011. To help keep this offer programme on track, the CER set up a Gate 3 Liaison Group with the system operators and industry in early 2009. The Group meetings, which are held monthly, are organised and chaired by the CER, and include representatives from the system operators and from the renewable and non-renewable generation sectors. So far, the CER is pleased to report that the Gate 3 offers are issuing to schedule and the Gate 3 project is on track. Detailed information is available on the CER's website at [www.cer.ie](http://www.cer.ie).

## Petroleum Safety

The Petroleum (Exploration and Extraction) Safety Act 2010, which was passed in April, has given the CER new safety regulation responsibilities in the area of petroleum exploration and extraction. Although not yet fully commenced, this Act gives the CER the function to regulate the designated petroleum activities of petroleum undertakings with respect to safety and requires the CER to establish and implement a risk-based Petroleum Safety Framework. This Framework will describe what activities and infrastructure will be regulated and how. This includes activities related to each stage of the lifecycle of petroleum infrastructure: design, construction, operation, maintenance, modification and decommissioning.

The CER has recently established a project team to manage the full implementation of the 2010 Act. The CER expects that the initial phase of the project will be completed in Quarter 4 2010, with

the publication of reports on the existing petroleum safety frameworks in Ireland and internationally, as well as a detailed implementation plan. The CER will undertake the project in an open and transparent manner, underpinned by a fully consultative approach. Further information will be made available on our website ([www.cer.ie](http://www.cer.ie)) in the coming months.

## New CER Commissioner



Commissioner  
Garrett Blaney

The CER is headed by up to three Commissioners at any one time. The CER welcomed a third Commissioner, Garrett Blaney (pictured left) to the organisation in February 2010, filling the vacancy left following the retirement of Tom Reeves last Autumn. Garrett joins Commissioner Dermot Nolan and Chairman Michael G. Tutty to lead the organisation.

## Contact Information

For any queries on this newsletter, please contact Andrew Ebrill or Marian Troy at the CER.

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