Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Review of the Regulatory Framework for the Retail Electricity Market
Domestic Market Deregulation

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Abstract: In its decision paper on the Roadmap for Deregulation (CER/10/058), the CER set out a number of criteria which must be fulfilled before deregulation can occur in a relevant electricity retail market. In the last review the CER noted its expectation that Electric Ireland would meet the 60% threshold for the domestic market by April, and would confirm that position in early March. This note confirms that all deregulation criteria have been met and the final phase of the deregulation of the retail electricity market will occur on 4th April 2011.

Target Audience:

This paper is for the attention of members of the public, the energy industry, customers and all interested parties.

Related Documents:

- CER 09/189: Consultation Paper Review of the Regulatory Framework for the Retail Electricity Market: Proposals on a Roadmap for Deregulation
- CER 10/058: Decision Paper Review of the Regulatory Framework for the Retail Electricity Market: Proposals on a Roadmap for Deregulation
- CER 10/059: Review of the Regulatory Framework for the Retail Electricity Market Competition Review Q1 2010
- CER 10/116: Review of the Regulatory Framework for the Retail Electricity Market Competition Review Q2 2010
- CER/10/196: Review of the Regulatory Framework for the Retail Electricity Market Competition Review Q3 2010
- CER/10/117: Information Note: Roadmap to Deregulation, Legislative and Licence Changes
- CER/11/021: Review of the Regulatory Framework for the Retail Electricity Market Competition Review Q4 2010

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Executive Summary

In April 2010, the CER published its Review of the Regulatory Framework for the Retail Electricity Market. That decision set out the Roadmap which identified the key competitive milestones that would mark the way to full deregulation in all sectors of the business and domestic markets.

The decision paper stated that deregulation could occur in a market if the following criteria had been met (subject to all necessary legislative and licensing changes being implemented):

(i) There are at least three suppliers active in the relevant market; and

(ii) There is a minimum of 2 independent suppliers, each of which has at least 10% share of load (GWh) in the relevant market; and

(iii) ESB supply companies combined serve or will serve within a specified period a defined percentage of consumption market share in a relevant market. For each of the business markets, the percentage market share was 50% or less. In the domestic market, the percentage market share was 60% or less.

This paper is the CER's final determination in the deregulation of the retail electricity market. It provides an assessment of competition in the domestic market and a review of the deregulation threshold requirements;-

- There are at least three active suppliers in the retail market.

- Both Airtricity and Bord Gáis Energy have market shares in excess of 10% threshold. Airtricity had 14.12% of consumption billed in the period Sept, Oct & Nov 2010 and Bord Gáis Energy (BGE) had 24.55% for the same period. Based on recent switching trends, these numbers are forecast to increase to 16.22% and 25.66% respectively by the end March 2011.

- The CER estimates that Electric Ireland's (formerly ESB Customer Supply) market share (GWh) was 59.57% at the end of January 2011, below the 60% threshold required for deregulation. Based on recent switching trends, the 3 month projection indicates that Electric Ireland's market share of the domestic market will be 57.86% at end March 2011.

There were two additional deregulation requirements for the Domestic market; switching rates must be greater than 10% and ESB must provide the CER with a satisfactory commitment for the rebranding of ESB supply companies at 60% where the commitment is in place prior to the deregulation of the domestic market.

- The switching rate from February '10 to end January '11 (calculated as a rolling average annual switching rate) was approximately 21.34%.

- The ESB rebranding process commenced with the launch of the Electric Ireland brand in December 2010. The CER notes that all dual branding phases of this process must be completed by end December 2011.

Therefore Electric Ireland (formerly ESB Customer Supply) will see the remaining restrictions on price regulation in the domestic market lifted from 4th April 2011.

This significant decision ends 10 years of price regulation in the electricity market. However the end of price regulation of the incumbent's tariffs does not mean the end of retail market regulation. Customer protection in the newly deregulated market is of paramount importance, and to this end, the CER will be implementing a range of new initiatives. These include customer education campaigns, the provision of detailed consumption information and tariff comparison facilities to empower all customers to benefit from increased competition. New European legislation provides the CER with additional powers for market monitoring and the CER will continue to monitor the electricity retail markets after deregulation to ensure they are working well and delivering for consumers.

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1.0 Background

1.1 Introduction

On April 21st, 2010, the CER published a decision paper[1] entitled: "Review of the Regulatory Framework for the Retail Electricity Market: Roadmap to Deregulation," also known as the 'Roadmap.' That document set out the framework for how and when the retail electricity market would be deregulated.

1.2 Criteria for Deregulation

In the Roadmap, the CER decided that there are four separate markets; Large Energy Users (DG 7, 8, 9, 10 & TCON), Medium-Sized Business (Public Lighting & Low Voltage Maximum Demand – DG3&6), Small Business (Low Voltage Non-Maximum Demand – DG5) and Domestic Customers (DG 1&2).

Deregulation of Electric Ireland[2] licensed as the Public Electricity Supplier (PES) can occur in a market if the following criteria are met (subject to all necessary legislative and licensing changes being implemented):

(i) There are at least three suppliers active in the relevant market; and

(ii) There are a minimum of 2 independent suppliers, each of which has at least 10% share of load (GWh) in the relevant market; and

(iii) ESB PES and ESBIE combined serve or will serve within a specified period a defined percentage of market share (by consumption) in a relevant market. For the Business markets, the defined percentage market share is 50% or less. In the domestic market, the defined percentage market share is 60% or less.

There were two additional requirements for the domestic market. First switching rates must be greater than 10%. Second, ESB must provide the CER with a satisfactory commitment for the rebranding of ESB supply companies where the commitment is in place prior to the deregulation of the domestic market at 60% market share (GWh).

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[1] Roadmap to Deregulation CER 10/058

[2] As per the decision on the Roadmap for Deregulation (CER/10/058), a criterion for deregulation is the provision of a satisfactory commitment to rebrand. ESB Customer Supply and ESB Independent Energy have now commenced their rebranding process with the launch of its new name, Electric Ireland.

1.3 Detail of Market Reviews

The first competition review concluded that the three relevant business markets had met the criteria required to be deregulated. Following the implementation of the necessary legislative and licensing changes the three business markets were deregulated on October 1st 2010.

As part of the Roadmap decision, the CER decided to carry out market reviews on a quarterly basis. The CER carried out the first market review in April ’10, a second market review was carried out in July ’10, and a third review was carried out in October ’10 and a fourth review was published at the beginning of February 2011. The number of active suppliers in a given market, and their respective market shares, will be determined on Meter Registration System Operator (MRSO) data. The Roadmap set out how supplier market share would be calculated as follows:

- on the latest available consumption data from the MRSO - if the market is found to have passed these and all other criteria then it will be deregulated immediately (subject to all necessary legislative and licensing changes being implemented).

- where markets have not met the market share thresholds, a forecast will be calculated for a forward looking assessment. Monthly switching trend data from the MRSO will be used to forecast the most up to date market shares. The average amount of switching over the last three available months of data will be used to extrapolate for 3 and 6 months forecasts.

- A 6 month prospective assessment will serve as a provisional indicator of whether or not deregulation will take place at that time. In order to provide certainty, a final decision will not be made about the deregulation of the relevant market until 1 month before it is predicted to take place. Similar to the initial assessment, the amount of switching over the previous months will be used to extrapolate what the forecast market shares will be at the proposed time of deregulation. For example, in this review, the CER is using MRSO market share data for Sept, Oct & Nov 2010 as a baseline. The CER has also averaged the switching data from December and January to extrapolate what the market shares of the market participants will be at the end of March 2011 and at the end of June 2011.

2.0 Domestic Market Analysis

2.1 Introduction

This section contains a market analysis for the domestic market, which will determine whether the market share criterion for deregulation of the domestic market has been reached.

In order to provide the most up to date assessment of market share, the CER has examined the latest available supplier market share calculated on billed consumption for a three month period ending in November 2010.

2.2 Number of Suppliers and Market Share

The domestic market refers to residential customers with an urban (DG1) or rural (DG2) connection to the low voltage network. Figures 2.1 & 2.2 show market share by customer numbers at end of November 2010 and, billed consumption for Sept, Oct & Nov 2010.

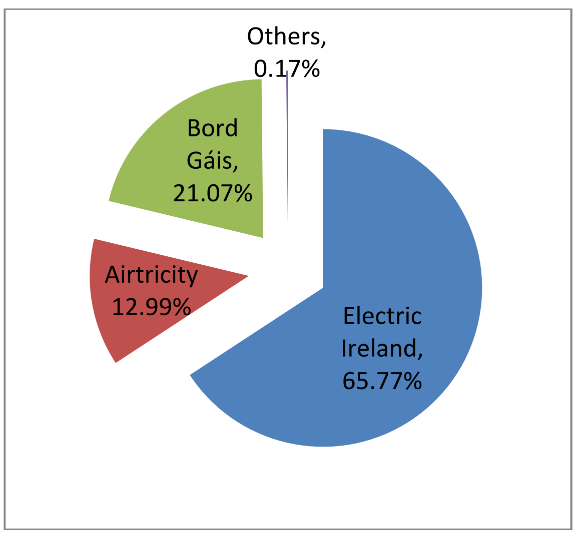

Figure 2.1 % Domestic Market Share (Customer Nos) end Nov 2010.

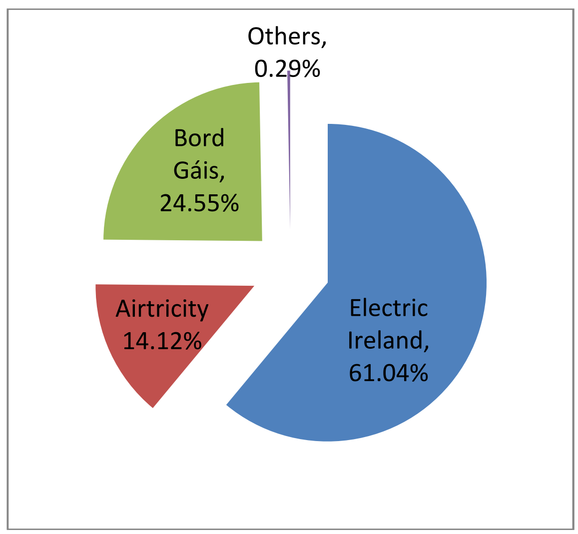

Figure 2.2 % Domestic Market Share (GWh) for Sept, Oct & Nov 2010.

There are two active independent suppliers in the market and both have a market share of 10% or more, as per the deregulation requirement. Airtricity had 14.12% and Bord Gáis Energy (BGE) had 24.55% of consumption billed in the period Sept, Oct & Nov 2010. Figure 2.2 shows that Electric Ireland had a market share (GWh) of 61.04% for Sept, Oct & Nov 2010, this was down from 63.67% in the last review.

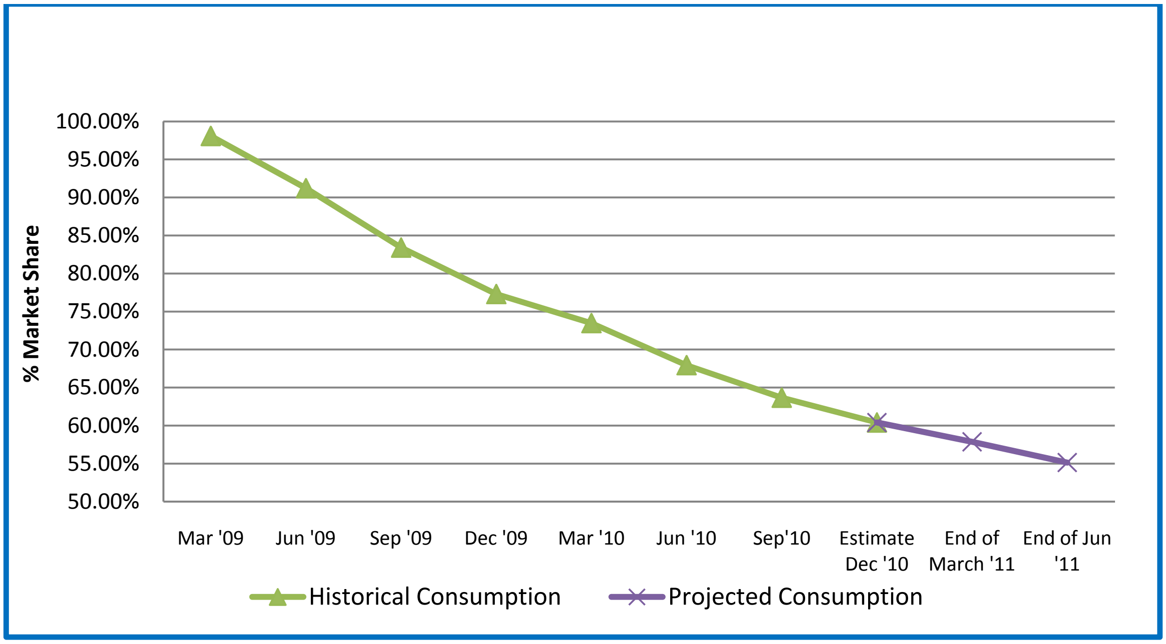

Figure 2.3 Domestic Market Share (Electric Ireland) Q1 2009 – Dec 2010. Projection to end June 2011

The data indicates that the threshold has been reached for deregulation to occur in April 2011. The CER estimates that Electric Ireland's market share (GWh) was 59.57% at the end of January 2011, below the 60% threshold required for deregulation. Furthermore, based on recent switching trends, the 3 month projection indicates that Electric Ireland's market share of the domestic market is expected to be 57.86% at end March 2011. It should also be noted that the March projection is based on recent switching trends which are lower than usual as this period encompasses the Christmas season.

Looking more generally at the market trends in switching, the CER notes that while switching has decreased over the Christmas period that the level of switching over the past 3 months has been consistent with the previous year. Figure 2.4 provides a projection of Airtricity and BGE's domestic market share until the end of March 2011. These numbers are forecast to increase to 16.22% and 25.66% by the end March 2011.

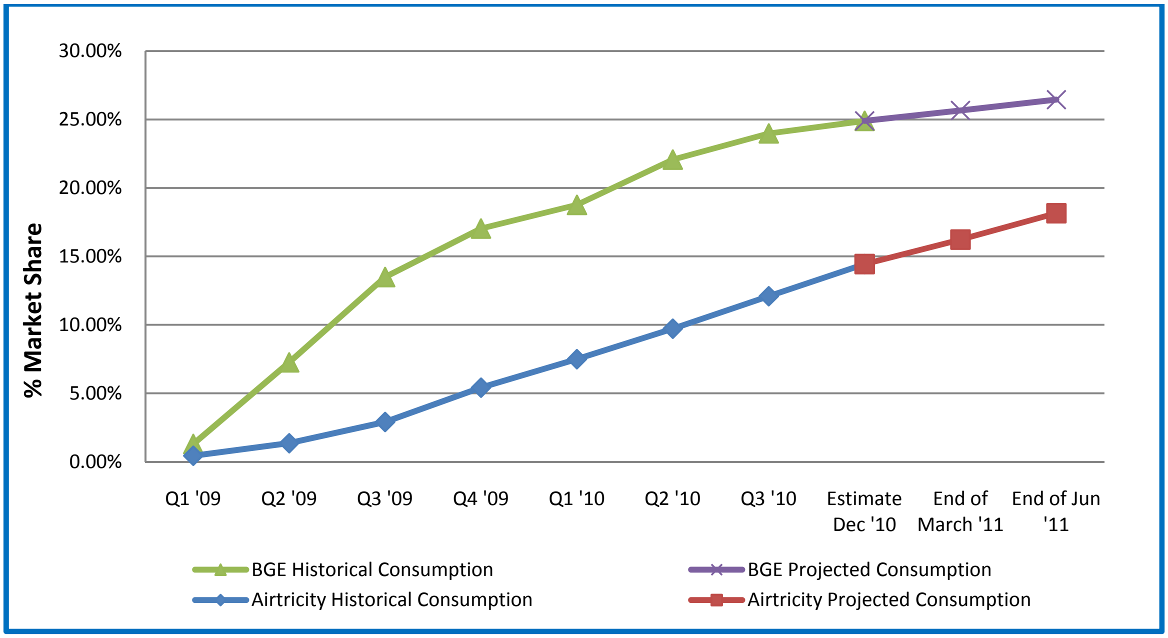

Figure 2.4 Domestic Market Share (BGE and Airtricity) Q1 2009 – Dec 2010. Projection to end Jun 2011

2.3 Switching

The Roadmap also required that "the switching rate must be greater than 10%" where "the rate of switching will be calculated on a historical basis the rolling average annual switching rate over the last 12 months." The switching rate from February '10 to end January '11 was approximately **21.34%,** which fulfils the switching deregulation criteria.

2.4 Branding

In the Roadmap paper the CER decided that, further to the criteria for market share, the domestic market would not be deregulated at the 60% threshold until there was a commitment in place from ESB which would address, to the satisfaction of the CER, the rebranding of the ESB supply businesses.

ESB has taken actions as part of its commitment to rebrand with the public announcement[3] of a new brand name, "**Electric Ireland**", for its energy supply businesses. ESB has provided the CER with satisfactory evidence to demonstrate that rebranding is taking place. All dual branding activities should complete by end December 2011.

2.5 Conclusion

The CER has determined that all of the criteria have been met to allow for the deregulation of the domestic market on 4th April 2011.

[3] ESB announced the new brand name for its energy supply businesses in a press release on 9th December 2010