Note to Minister

To: Mr. Pat Rabbitte, T.D., Minister for Communications, Energy and Natural Resources

In accordance with paragraph 25 (b) of Schedule 1 to the Electricity Regulation Act, 1999, as amended by Section 10 Energy (Miscellaneous Provisions) Act, 2006, we are pleased to present to you the Annual Report of the Commission for Energy Regulation, in respect of the period from 1st January 2011 to 31st December 2011.

Dermot Nolan
Commissioner

Garrett Blaney
Commissioner
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Introduction

The Commission for Energy Regulation (CER) is the national energy regulatory authority for Ireland. We are both Ireland’s economic energy regulator, with our objective being to protect energy customers, and we are the country’s safety energy regulator, where our core focus is on protecting lives and having a world class energy safely record.

These different objectives continued to shape the work of the CER in 2011 in both our economic and safety roles. Developments during the year included the CER's decision to de-regulate electricity prices, measures taken to enhance customer protection, the publication of the CER’s smart metering trial results and progress in relation to the wholesale Single Electricity Market (SEM). In safety regulation the CER continued to implement its “downstream” safety functions in electricity and gas, while also developing its new role as regulator of Ireland’s petroleum extraction and exploration activities.

Customer Protection Measures

The CER’s customer survey in 2011 found that almost all customers had a positive experience in switching energy supplier. To help ensure that customers continue to benefit from competition and to implement European legislation, in 2011 the CER embarked on new customer protection measures. This included a requirement for suppliers to provide detailed consumption information on bills, a CER framework for accrediting energy price comparison websites and extra protection for vulnerable customers. Already the CER has accredited an energy comparison website as it met the standards set in the CER's framework, and this should assist customers in getting the best tariff deal. The CER intends to develop further customer protection measures in 2012.

The rate of energy disconnections stabilised in 2011 at about 0.8% of all customers (this includes vacant premises), having risen in 2010 due primarily to the economic recession. This followed the CER’s requirement that suppliers must give customers in arrears the opportunity to enter a payment plan or to avail of a free “pay as you go” meter before any disconnection moves can be made. These meters help customers to manage their payments better and avoid building-up arrears. The CER urges customers struggling to manage their household bills to contact their supplier and see if they can avail of a free “pay as you go” meter.

Retail Price De-regulation

Following from the CER's “Roadmap” on the criteria for electricity retail (supply) price de-regulation, in March 2011 the CER decided to de-regulate prices for Ireland’s domestic (residential) electricity customers. This followed a similar decision to de-regulate the business markets the previous year. This meant that, from 4th April 2011, Electric Ireland, the new rebranded name for ESB Customer Supply, has been able to set its own electricity prices for all its customers without prior CER approval.

This milestone CER decision was made because the Roadmap criteria had been met, given that the retail electricity market had become sufficiently competitive. In fact between early 2009 and late 2011 there were over 1.2 million supplier switches by Irish electricity customers, over 40% of the market, one of the highest supplier switching rates in Europe. This success story has been facilitated by the CER approving a free and simple supplier switching process that has given Irish customers choice and price discounts. This in turn has put downward pressure on prices, which is of particular value in the present difficult economic climate. In the long run, the CER believes that price de-regulation will continue to drive further choice and competitive prices for customers.

Competition took off a little later in the gas market than in electricity, but is catching up quickly, with circa 29% of customers switching supplier over the two years to end 2011. As a result, in June 2011 the CER published a Roadmap on the criteria for de-regulating Bord Gáis Energy’s gas prices (similar to the electricity Roadmap). In October the CER de-regulated the business gas markets as the Roadmap criteria had been already met, given that Bord Gáis had a business market share of less than 50%. Bord Gáis Energy can now set its own tariffs for business gas customers, which should further help competition. The domestic sector has not yet reached the required Roadmap criteria but it will be kept under review as competition further develops.

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Foreword from the Commissioners

Chairperson Dermot Nolan

Commissioner Garrett Blaney
In 2011 the CER decided on the related issue of “debt hopping”, to reduce the situation where some customers were changing supplier in order to avoid paying arrears, exacerbating bad debt levels in the industry and raising costs for all customers. The CER decided on a “bad debt flag” solution in which a supplier would be informed if a potential new customer has a large amount of debt so it could then decide if it will accept that customer. The aim is to provide customer protection while also helping the market develop in a competitive manner.

The CER is closely monitoring all of these evolving customer issues. The CER’s Energy Customers Team also continues to provide a free dispute resolution service for issues that customers may have with their energy supplier – please see www.energycustomers.ie for further information.

Energy Prices
The price of electricity and gas to customers is heavily influenced by global wholesale gas prices which are outside of Ireland’s control. These international gas prices fell significantly in late 2008 and into 2009 due to the global economic downturn which, combined with retail competition, led to lower electricity and gas prices for Irish customers. However, rising international wholesale gas prices since then have put upward pressure on energy prices in 2011 in many countries, including the UK and Ireland. In this environment, Bord Gáis Energy applied to the CER for a 28% rise in its domestic gas tariffs from October 2011. Following a review and a public consultation, the CER decided to disallow certain costs and approve an overall gas price rise of circa 22%. As discussed earlier, electricity prices have been fully de-regulated, though it is noted that there have been some electricity supplier prices increases in 2011 due to the higher wholesale gas costs.

The CER appreciates that any energy prices rises are difficult for customers. We encourage customers to “shop around” among suppliers to get the best possible deal. Furthermore, customers who have difficulty in meeting energy payments are advised to engage early with their energy supplier.

Wholesale Electricity Market
The cost of generating electricity typically accounts for over half of a customer’s electricity bill. The CER has a key role in ensuring that electricity generation costs are at competitive levels by regulating the wholesale all-island Single Electricity Market (SEM). The SEM is governed by the SEM Committee (the CER, the Utility Regulator in Belfast and an independent member) and is designed to run the cheapest generators to meet customer demand on the island, while maximising the sustainability and reliability of electricity.

Assisted by clear market rules and regulation, since it started in November 2007, the SEM has encouraged more renewable generation and modern efficient gas plants into the island. This has helped to keep prices competitive, ensure continued security of electricity supply and provide environmental benefits.

Policy developments in SEM in 2011 included proposed changes to the Capacity Payment Mechanism. The “market power and liquidity” project was mostly completed too, with a November 2011 proposal to allow ESB to horizontally integrate its generation business. The “DS3” programme also commenced, as referred to in the renewables section, next.

The biggest area of work ahead, however, relates to the integration of SEM into Europe in the coming years, as physical interconnection increases with the UK and the EU moves toward a single internal “target model” electricity market. Given that the SEM design is different from that of most EU countries, the SEM Committee has been given an extra two years - until 2016 - to achieve compliance with this target model. In 2011 the SEM Committee established a project team to explore options for adapting SEM design to achieve compliance, followed by a number of stakeholder workshops. The SEM Committee published a major consultation paper on the matter in January 2012 and a decision on the next steps to achieve compliance will be made later in 2012. It is envisaged that this workstream will be a key area of work for the CER over the next few years.

Renewable Generation
2011 saw further wind farms connect to the electricity network, providing some hedge against rising international gas costs. Already about 20% of Ireland’s electricity consumption comes from renewable generation - mostly wind farms - one of the highest levels in the EU. The CER is working to increase this further in order to meet the Government’s 40% renewables target for 2020. This is facilitated by the CER’s “Gate 3” connection regime, with the final of the 4,000 MW of Gate 3 renewable connection offers issuing last August. With the completion of these offers, the CER's Gate 3 Liaison Group meetings with industry are now focusing on post connection issues.

Another focus in relation to the 40% 2020 target is the “DS3” programme being pursued by the Transmission System Operators on the island, overseen by the CER and Utility Regulator. It consists of 11 workstreams, including a review

...
of the ancillary services regime and other aspects of system operation, which are needed to safely and efficiently manage the system with more wind in the years ahead. This will involve public consultations during 2012, with any policy changes to be approved by the Regulatory Authorities.

Energy Networks
The new 500 MW EirGrid East-West electricity interconnector to the UK, which has been overseen by the CER, is within budget and on target for commercial operation before the end of 2012. This has been a major project in recent years and its completion will facilitate more wind on the system and promote more cross-border trade in the SEM, to the benefit of customers. At the same time investment in the on-shore electricity network remains a priority, in order to provide for a high quality energy supply and to facilitate the connection of more wind farms.

During the year the CER also consulted extensively on the regulatory treatment of the Bord Gáis gas interconnectors. The basic objective of CER proposals in this area is to reward efficient new sources of gas while at the same time containing any upward pressure on tariffs and recognising the crucial role that the interconnectors play in securing Ireland’s long term energy supply requirements. A decision on this policy matter is due in mid 2012.

Smart Meters
In November 2011 the CER published a consultation paper proposing to roll-out electricity and gas “smart meters” to all homes and many businesses across Ireland in the coming years. This followed the completion of electricity and gas pilot trials during which approximately 12,000 smart meters were rolled-out in 2009 to 2010. The trials showed that, taking account of the costs involved, smart meters could provide a net benefit to customers and the country of more than €220 million over 20 years.

This benefit is provided because smart meters can record customers’ use of energy over short intervals, for example every 30 minutes. Thus they facilitate the provision of more consumption information to customers and they allow suppliers to charge more varying electricity prices to reflect the different cost of electricity at different times, reducing overall and especially peak energy consumption. Smart meters therefore help reduce energy bills, improve energy efficiency and lower Ireland’s CO2 emissions, which is good for the environment.

A final decision on a national roll-out is expected from the CER in 2012, with the process of installing the smart meters likely to occur over the following years.

Petroleum Safety Regime
A big task for the CER’s safety division in 2011 was developing the high-level design of Ireland’s new petroleum safety regime. This follows legislation passed in 2010 requiring the CER to implement a Petroleum Safety Framework for oil and gas exploration and extraction activities in Ireland, both on-shore and off-shore. This includes the existing off-shore Kinsale gas field and the proposed Corrib gas field. It would also include any potential hydraulic fracturing operations (“fracking” as it is commonly known) associated with shale gas, if licensed.

In order to support the design of the Petroleum Safety Framework, a report on petroleum safety regimes internationally was published by the CER in December 2010, with a review of the Irish regulatory regime published in March 2011. The CER then commenced a public consultation on the high-level design of the Petroleum Safety Framework in August, followed by a detailed Draft Decision published for further consultation in February 2012 and a final decision in June.

The core focus of the CER’s Petroleum Safety Framework is to regulate petroleum undertakings in oil and gas through a risk-based system, in a manner that protects life. It includes the requirement for petroleum undertakings to submit safety cases to the CER for assessment, the prohibition of specified activities (including the drilling of wells or the production of oil/gas) without a CER safety permit and an extensive CER monitoring system for the petroleum activities. The CER also has extensive enforcement powers which it will exercise to ensure compliance by petroleum undertakings with their safety obligations.

Over the next 18 months the CER will develop and publically consult on a number of procedures and guidance documents necessary to fully implement this new Framework. The CER expects that it will begin operation before the end of 2013.

Electricity and Gas Safety
In 2011 the CER continued to monitor the safety performance of the Safety Supervisory Bodies for Registered Electrical Contractors (RECs) and Registered Gas Installers (RGIs). Following legislation passed in 2010, this safety regime was also extended to Liquefied Petroleum Gas (LPG) installers in 2011. Additionally, work to further extend to include the regulation of LPG distribution networks in the CER’s Gas Safety Framework commences in 2012.
In relation to electrical contractors, the scope of works in a domestic setting which can only be carried out by a REC was consulted on by the CER in 2011. A final decision paper was issued in March 2012 and it is anticipated that the requirements will be put on a statutory footing later in 2012. It means that any electrical work in a domestic environment that would require a modification, replacement or addition to the main distribution board must be carried out by a REC. This move is designed to enhance the safety of installations in domestic premises.

Anecdotally the CER understands that there is still a significant level of electrical work that is carried out by non-competent parties. As a consequence, in 2011 the CER launched a public awareness campaign aimed at increasing awareness of the “Safe Electric” brand and to encourage people to only use a Registered Electrical Contractor for electrical works in their homes or businesses. A similar campaign has also been run to encourage people to use a Registered Gas Installer for works carried out on gas or LPG installations.

The CER’s Gas Safety Framework covers the safety regulation of gas undertakings (including gas networks, gas shippers/suppliers) and gas installers. As part of this, the first technical inspections of the gas Transmission System Operator were carried out, with a focus on the Interconnector sites and key transmission installations around the country. A number of areas of improvement were identified for action. The safety audit regime for gas undertakings will continue in 2012 to ensure that there is continuous improvement on safety matters.

Next Steps
Key areas of work in 2012 include developing our new role as a petroleum safety regulator, deciding on how SEM will integrate into the European electricity markets, finalising our 5-year review of the allowed revenue for the gas networks and deciding on a national roll-out programme for smart meters.

Beyond this, the CER looks forward to becoming Ireland’s economic regulator for public water supplies, following the Government’s recent announcement on this matter. It is expected that this area will feature heavily in our work programme next year.

The CER will remain focused on providing an efficient regulatory service to all our customers and meeting our expanding statutory duties. For further information on all aspects of the CER’s work, please see the CER’s website at www.cer.ie

Personal Message
Finally, at a personal level we’d like to take this opportunity to send our best wishes to Michael G. Tutty, a CER Commissioner from October 2004 and Chairperson from October 2008 until he retired in May 2011. During his time with the CER Michael led key changes, including the expansion of the CER into its new safety role, the go-live of the all-island SEM and significant growth in the role of renewables in Ireland’s generation mix. We wish Michael a happy and fruitful retirement.

Dermot Nolan
Chairperson

Garrett Blaney
Commissioner

June 2012
Public Interest Statement

Ireland’s Energy Regulator
The Commission for Energy Regulation (CER) is the independent body responsible for regulating the natural gas and electricity markets in Ireland, and is the safety regulator of electricity, natural gas and petroleum exploration. As an economic and safety energy regulator, our mission is as follows:

In a world where energy supply and prices are highly volatile, the mission of the CER, acting in the interests of consumers is to ensure that:

- the lights stay on,
- the gas continues to flow,
- the prices charged are fair and reasonable,
- the environment is protected, and,
- energy is supplied safely.

For detailed information on our work please see our website at www.cer.ie

Duties & Functions
The CER was established under the provisions of the Electricity Regulation Act, 1999, and has taken on significant additional responsibilities since then under various pieces of legislation. Responsibility for the regulation of the natural gas market was conferred upon the CER under the Gas (Interim) Regulation Act, 2002.

More recently, the Energy (Miscellaneous Provisions) Act 2006 added to the role and functions of the CER, including providing for additional responsibilities in natural gas and electrical safety. The Electricity Regulation Amendment (SEM) Act, 2007 outlined the CER’s functions in relation to the Single Electricity Market (SEM) for the island of Ireland. The SEM is governed through the SEM Committee consisting of the CER, the Utility Regulator in Belfast and an Independent Member. In 2010 the CER’s statutory safety responsibilities expanded significantly with the enactment of the Petroleum (Exploration & Extraction) Safety Act, 2010.

Further legislation has seen the Registered Gas Installer scheme expand to include Liquefied Petroleum Gas (LPG) installers and legislation is planned to expand the CER’s LPG safety functions to include piped LPG distribution systems, LPG incident reporting & investigations and LPG promotion and public awareness.

The CER’s statutory duties include that it must promote: competition in gas and electricity markets; safety on the part of the electrical contracting sector and natural gas undertakings; the continuity, security and quality of supplies of electricity and natural gas; and renewable, sustainable or alternative forms of energy.

The CER must also take account of: the protection of the environment; encouragement of efficient use and production of electricity; and the needs of rural customers, the disadvantaged and the elderly. The CER must also take account of the rights of customers, particularly household customers and small enterprises, to be supplied with electricity to a specified quality at reasonable, easily and clearly comparable and transparent prices.

The functions of the CER can be summarised as follows:

- Ensuring sufficient capacity in the electricity and gas systems to satisfy reasonable demands for supply of natural gas and electricity;
- Protecting the interests of final customers including the disadvantaged, the elderly and those residing in rural areas;
- Promoting competition in the supply of electricity and natural gas and in electricity generation;
- Ensuring no unfair discrimination between applicants for, or holders of, licences, consents and authorisations or between them and State-owned operators;
- Promoting the continuity, security and quality of supplies and encouraging safety and efficiency in undertakings and by end users;
- Monitoring security of electricity and gas supplies and taking appropriate action to ensure satisfactory margins between supply and demand;
- Ensuring licence and authorisation holders are capable of financing their activities;
- Setting standards, enforcing compliance, settling disputes, controlling and monitoring performance and reporting regularly on these activities;
- Promoting research and the use of sustainable forms of energy that reduce, or are free of, greenhouse gas emissions as well as adopting measures to protect the natural environment in all the sectors’ activities;
- Advising government on the development and regulation of the gas and electricity sectors;
- Regulating the activities of electrical contractors with respect to safety;
- Regulating the activities of natural gas undertakings and of natural gas & LPG installers with respect to safety;
- Promoting the safety of natural gas customers and the public generally as regards the supply storage, transmission, distribution and use of natural gas;
- Establishing and implementing a natural gas safety framework;
- Establishing and implementing a risk-based petroleum safety framework.
CER Organisation
The CER is headed by up to three Commissioners at any one time. Currently the Commissioners are Dermot Nolan, Chairperson, and Garret Blaney. The Commissioners are assisted in their duties by a staff of about 70, including 4 directors. The chart below summarises the current organisational structure.

Information Provision, Key Tasks & Public Interest
The CER is committed to providing a high quality, user-friendly and easily accessible service to our customers in all of our areas of responsibility, as set out in its customer charter which is available on www.cer.ie.

In making its decisions on policy matters, the CER regularly carries out formal consultations with stakeholders over its website www.cer.ie and the associated website for all-island energy regulatory issues, at www.allislandproject.org. Responses to these consultations are considered in the formulation of decision papers. The CER also regularly communicates and meets with industry and customer stakeholders.
This process of formal consultation was in evidence during 2011 when the CER made public policy consultations and decisions to achieve its mission (shown above) in the public interest. This is detailed in the “8 Key Tasks” in this Annual Report which focuses on the most important strategic tasks that the CER set for itself for 2011 in order to achieve its mission. For example:

- Key Task 1 (retail price de-regulation and customer protection) contributes to customers paying fair and reasonable prices for their electricity.
- Key Task 2 (progress Common Arrangements for Gas) contributes to prices being fair and reasonable and the gas continuing to flow.
- Key Task 3 (progresses smart metering a) contributes to electricity/gas prices being fair and reasonable and the protection of the environment.
- Key Task 4 (SEM development) contributes to the lights staying on and the electricity prices being fair and reasonable for customers.
- Key Task 5 (review of Bord Gáis Networks’ transmission and distribution revenue) contributes to the lights staying on and customers paying fair and reasonable prices for their gas.
- Key Task 6 (safety) contributes to energy being supplied safely.
- Key Task 7 (monitor Gate 3 connection offers & review uptake of Gate ) contributes to the environment being protected.
- Key Task 8 (input to EU Framework Guidelines & implement “Third Package” requirements in electricity/gas) contributes to prices being fair and reasonable.

The CER also delivers energy information to the general public and provides a dispute resolution service for electricity and gas customers, through the CER websites at www.cer.ie and www.energycustomers.ie and through face-to-face meetings and published documents.

**Energy Efficiency**

The CER, as a public sector agency, is fully committed to playing its part in the achievement of energy efficiency (reduction) targets - currently 33% - across the public sector by 2020. Over the course of 2011 the CER appointed its Energy Manager and established its Energy Management Team. The Team developed a CER Energy Policy which was adopted by the CER in February 2011.

The CER set as its objective, exemplary performance in energy management and energy efficiency in the public service. In pursuance of this objective, the CER undertook a range of measures throughout 2011. The CER’s Energy Management Programme for 2011 targeted energy awareness (through the implementation of signage and the running of an energy efficiency competition between the different sections of the organisation) and energy reduction measures (automatic shut-down of PCs). To assist us in this regard, the CER participated in Sustainable Energy Authority of Ireland’s (SEAI’s) Public Sector Programme; this included working with the SEAI appointed Energy Advisor who carried out an energy assessment, to identify energy saving opportunities. The results of the assessment were a key input to the work of the Team throughout 2011. Additional measures, not originally part of the 2011 programme, included the installation of time-clock controls on all water heating sources and the replacement of all halogen spots with LED equivalents.

The CER’s office accounts for 100% of its energy usage. During 2011 a total of 210 MWh of energy was consumed, consisting solely of electricity. This represents a substantial reduction of 79 MWh on 2010. The CER’s Energy Management Programme contributed significantly to this large reduction. However, the CER’s electricity consumption is thought to be highly correlated to “degree days” and this temperature dependant heat load is also thought to have contributed significantly to the reduction achieved. The CER is currently capturing data to allow “degree days” analysis to be carried out, in order to identify changes in energy usage which can be directly attributed to energy efficiency initiatives.
Statement of Best Practice

We wish to state that the CER continues and will continue to adopt best practice in the area of corporate governance in carrying out its functions and duties. In this regard, the CER is required to comply with the “Code of Practice for the Governance of State Bodies” which was published by the Department of Finance in October 2001 and updated in May 2009. The CER is committed to complying with the revised Code.

The CER is in compliance with the revised Code issued in May 2009 save for a few generic elements which are not relevant to an independent regulatory authority. The CER has agreed with the Department of Communications, Energy and Natural Resources on the extent to which requirements are adapted to the CER.

Procedures that the CER currently has in place in this regard include:

- A code of conduct for Commissioners and employees;
- Ensuring compliance with Irish and EU tendering and procurement requirements;
- CER Corporate Procurement Plan;
- Procedures for the disposal of assets;
- Compliance with Government Policy on the remuneration of Commissioners and members of staff;
- Provision of details of Members of the Commissions’ emoluments and details of the Chairperson’s remuneration package within Financial Statements published with the Annual Report;
- Submission of interim unaudited accounts to the Department of Communications, Energy and Natural Resources and Department of Finance every six months;
- Appointment of external expertise to perform the internal audit function. The report of the CER Audit Committee is included in the Financial Statements section of this Annual Report;
- Submission, to the Department of Communications, Energy and Natural Resources, of a statement confirming compliance with taxation laws and confirming that all tax liabilities are paid on or before the due date;
- Submission of “Report on Compliance with the Code of Practice for the Governance of State Bodies” to the Minister for Communications, Energy and Natural Resources with the Annual Report and Financial Statements;
- Completion of Strategic Plan, the current plan covers the period 2010 to 2014 and was published on 8 February 2010;
- Development of an annual Work Programme to be submitted to the Minister by 30 November each year. The Work Programme for 2011 was published on the CER’s website on 3rd February 2011;
- Implementation of a Risk Management Policy, which is monitored by the CER;
- Establishment of a Risk Committee;
- Implementation of a policy on foreign travel; and
- Adoption of a policy for confidential disclosures regarding possible irregularities in financial reporting.

The Commissioners met formally on 53 occasions in 2011. Michael G. Tutty attended 21 meetings before he retired as Chairperson in May 2011, Chairperson Dermot Nolan attended 48 meetings and Commissioner Garrett Blaney attended 48 meetings.

Ethics in Public Office

We hereby confirm that we are not directly engaged in, concerned in or interested in any electricity generating business or in any electricity or natural gas transmission, distribution or supply business or in any energy business, whether as participant, investor, consultant or otherwise. In addition, in respect of the period covered by this report, there are no registrable interests, as specified in the Ethics in Public Office Acts 1995 and 2001 and the Gas (Interim) (Regulation) Act, 2002, of our own, or, to our actual knowledge, of a spouse or child, which could materially influence us in, or in relation to, the performance of the functions of our position.

Chairperson

Dermot Nolan

Commissioner

Garrett Blaney

June 2012
Background to the Annual Report

Report Structure

This Annual Report provides an overview of the CER’s key work items and achievements in 2011. While the Annual Report is designed to provide an update on the CER’s progress in achieving its strategic goals during the year, many of the CER’s work items are ongoing and will continue into and in some cases beyond 2012. Such work is generally mentioned here for completeness.

As part of the CER’s business planning process over 130 work items were identified for commencement, continuation or delivery during 2011. Of these, 8 were selected as the CER’s “8 Key Tasks for 2011”. These key tasks are distributed across the CER’s responsibilities and were viewed as being the CER’s most important strategic tasks for the year 2011 in order to achieve its mission. While the main focus of the CER’s work during 2011 was on these “8 Key Tasks”, each of the work items contributed to the CER’s overall strategic objectives.

The following section of this Annual Report focus primarily on the work carried out by the CER in meeting these 8 key strategic tasks, and related matters, in 2011. They are discussed in the same order as listed below.

The Report then informs on the outcomes against the “Key Performance Indicators” (KPIs) which were agreed with the Department of Communications, Energy and Natural Resources as part of Department of the Taoiseach’s “Better Regulation” drive.

Finally, the audited Financial Statements for the year ended 31st December 2011 are provided at the end of this Annual Report.

CER’s Eight Key Tasks

In its work programme for 2011, published on the CER’s website, the CER identified the following 8 key strategic tasks for commencement, progression, or delivery during 2011, all of which would help the CER to fulfil its mission statement. These tasks are as follows, discussed in detail in the following sections of the Report.

- Key Task 1: Retail Price De-regulation and Customer Protection
- Key Task 2: Progress all-island Common Arrangements for Gas (CAG)
- Key Task 3: Progress Smart Metering
- Key Task 4: Single Electricity Market (SEM) Development
- Key Task 5: Review of Bord Gáis Networks’ Transmission and Distribution Revenue
- Key Task 6: Safety.
- Key Task 7: Monitor Gate 3 Connection Offers & Review Uptake of Gate 3
- Key Task 8: Input to EU Framework Guidelines and Implement “Third Package” requirements in electricity/gas

Please see the CER’s 2011 Work Programme for more detail behind each of these tasks.
Task 1: Retail Price Deregulation and Customer Protection

This key task involved the following primary aims:

(a) Continue with the electricity retail deregulation programme for electricity as decided on in the CERs 2010 Roadmap;
(b) Implement a gas retail deregulation programme which will be decided in a forthcoming Roadmap; and,
(c) Implementation of consumer measures as set out in legislation transposing the Third Package through changes to the supply licence.

Background to Retail Deregulation and Policy Development

In newly liberalised markets, tariff regulation serves as a proxy for competition, with the aim of encouraging new entrants to the market and protecting consumers. However, the presence of regulated tariffs can ultimately become a constraint to the development of full competition. Its timely removal, once competition is sufficiently developed, can further drive competition to the benefit of the consumer.

In 2010 the CER reviewed the regulatory frameworks for the retail markets, which resulted in the publication of Roadmaps for the deregulation of the electricity and gas markets. The Roadmaps set out the pathway for deregulation, detailing the market criteria for the cessation of tariff regulation.

In addition, the Third Package of European energy legislation placed new duties and responsibilities on National Regulatory Authorities (NRAs), including the CER, with respect to the retail market and customer protection, including an increased role in market monitoring. The first phase of transposition of the Third Package was implemented through the enactment of S.I. No. 450 of 2010 which required the CER to monitor the level and effectiveness of market opening and the development of competition in the supply of electricity to final customers. S.I No. 463 of 2011 transposed the broader customer protection aspects of the Third package and S.I No. 630 of 2011 completed the transposition, extending the monitoring obligations to the gas market and including additional requirements for both electricity and gas.

The legislation requires that monitoring shall include, but is not limited to, monitoring:

(i) final tariffs charged to domestic customers including those on prepayment systems; 
(ii) rates of customer switching between licensed electricity and gas suppliers; 
(iii) disconnection and de-energisation rates;

(iv) charges for and the execution of maintenance services; 
(v) complaints by domestic customers; 
(vi) any distortion or restriction of competition in the supply of electricity and gas to final customers. 
(vii) whether the development and operation of competition in the supply of electricity and gas is benefitting final customers, and,
(viii) the level of market opening and of competition on natural gas exchanges.

Electricity

• The key CER objective is to monitor the progress of competition in the retail electricity market, implementing the decisions set out in the Roadmap as milestones are achieved.
• The CER is also consulting on the supplementary measures that are required to ensure that customers are both protected, and can fully benefit from competition in the deregulated market.
• Implementation of measures as set out in legislation transposing the Third Package.

Gas

The key CER objective in this task is to set out the milestones for when regulatory practices and end-price regulation will change in line with developing competition in relevant sectors of the gas market. The Roadmap will also set out additional regulatory remedies that would apply, as well as the transitional arrangements and provisions for ongoing regulatory monitoring.

Price Deregulation

Electricity Market

In 2010 the CER published the Roadmap for the deregulation of the electricity retail (supply) market. This was published in light of the strong competition that developed in the electricity retail market, giving Irish customers choice and price discounts. The Roadmap identified the key competitive milestones that would mark the way to full deregulation in all sectors of the business and domestic markets. Following the Roadmap decision paper, the CER conducted quarterly analysis of the electricity markets, so called competition reviews, to determine eligibility for deregulation based on the Roadmap criteria. Having met the criteria for deregulation, as detailed in the Roadmap, the business markets were deregulated on 1st October 2010.

For the domestic (residential) market, the Roadmap provided for price deregulation if certain criteria were achieved, such as ESB having a domestic market share of 60% or less and ESB committing to rebrand its supply businesses. On 4th
March 2011, in its competition review for Q4 2010, the CER confirmed that the domestic electricity retail market had met the Roadmap’s criteria for deregulation, with the market share of the different suppliers at the time shown below - this included the launch of the new ESB supply brand, Electric Ireland. As such, the remaining restrictions on price regulation were lifted on 4th April 2011, a significant decision ending 10 years of price regulation in the Irish electricity market. This meant that Electric Ireland can set its own electricity prices for all its customers without prior CER approval. In the long run, this should help drive further choice and competitive prices for customers.

Domestic Market Share, % Consumption, End March 2011

- Bord Gáis Energy Supply’s market share in the domestic market was 72.9%
- Only one independent supplier had a market share higher than 10%
- Annual switching rate was approximately 17%

Domestic Market Share, % Customer Numbers, End 2011

The CER is monitoring this situation against the Roadmap criteria on a quarterly basis.

Gas Market

Significant competition has also been seen in the gas retail markets, particularly with the entry of Airtricity and Electric Ireland into the domestic market - there are now several options of competing tariffs on offer for all customers. With this emergence of competition in all sectors of the gas market, the CER published a Roadmap for the deregulation of Bord Gáis Energy’s prices (similar to the electricity roadmap) in June 2011.

Since the publication of the Roadmap the CER has conducted quarterly competition reviews to ascertain whether these criteria have been met and deregulation should occur. The first competition review concluded that the two relevant business markets had met the criteria for deregulation. Therefore the business market sectors were deregulated on 1st October 2011 and since that time Bord Gáis Energy has been able to set its own tariffs for business customers. The Q4 Competition review in 2011 (which will be updated throughout 2012) concluded that the residential sector is still some way from reaching the required criteria and will be kept under review:

With the increase in competition and progressive deregulation of the retail markets, 2011 saw the introduction of a number of customer protection initiatives. These initiatives were guided by customer experience, best practice and relevant legislation. In terms of legislation, particular consideration was given to the Third Package, which places specific customer protection duties and responsibilities on NRAs, including the CER.

Consumer Survey

To help inform policy in the area of customer protection the CER conducts annual surveys of domestic customers’ attitudes and experiences of the retail market. The consumer survey for 2011, published in April, highlighted that:

- About a third of customers were interested in prepayment of their electricity usage.
- For 94% of customers who had switched, saving money was an important factor in the decision.
- Almost all customers had had a positive experience of the supplier switching process.
- 75% customers could easily understand their electricity bill. However 63% of customers would find the addition of a comparison with their previous months’ electricity usage on their bill useful and a similar percentage would find monthly cost comparison figures useful.

New Customer Protection Initiatives

Guided by the results from the consumer survey, as well as European best practice proposals, experience from other jurisdictions and relevant legislation, the CER reviewed its customer protection provisions. The review led to the introduction of new customer protection measures, including:

- A requirement on sales personnel calling to homes to provide a doorstep checklist.
- The adoption of universal design in all supplier customer communications and front line services.
- Protection for vulnerable customers to ensure that they are on an appropriate tariff.
- A requirement for suppliers to provide detailed consumption information on customers’ bills.
- A framework for accrediting customer tariff comparison facilities/websites.

The framework for accrediting customer tariff comparison facilities/websites is an example of the increased emphasis of providing customers with additional, reliable information to further inform their choices and seek out the best deals.

Price Comparison Accreditation

Price comparison websites are a useful tool to help customers find the most competitive products and nearly half of those questioned in the 2011 CER consumer survey agreed that a web based price comparison services would be beneficial when making a switching decision. Under the accreditation framework, a website providing an energy price comparison service is only accredited by the CER if it meets defined standards for accuracy, transparency, and reliability. Accredited sites will be audited at least annually to ensure a high standard of service. The price comparison www.Bonkers.ie became Ireland’s first accredited energy price comparison website in March 2012.

In 2011 the CER consulted on the addition of these new customer protection measures, as well as further measures, into the Codes of Practice guidelines for suppliers. The Codes of Practice guidelines require suppliers to put in place measures to ensure that customers are protected in key market areas, such as marketing, billing, disconnection, complaints handling and Pay As You Go metering. During November and December the CER carried out an audit to assess if suppliers were in compliance with the Code of Practice for disconnection. The audit examined suppliers’ Codes of Practice on Disconnection and established that all suppliers have implemented the published guidelines and are meeting the requirements set out by the CER. The CER noted in its report that in case of all domestic customer accounts audited, suppliers had exceeded the CER’s minimum contact requirements prior to moving to disconnect the customer.

Supply Licence Review

To ensure that the CER’s customer protection measures were appropriately underpinned, the CER published a consultation in October 2011 proposing modifications to the electricity and gas supply licences introducing new conditions where appropriate. The proposal also considered current legislative provisions and regulatory frameworks and market developments in general. As to customer protection, a new licence condition was introduced in the electricity supply licence to formally bind suppliers to the CER’s Code of Practice Guidelines. After consultation the modified supply licences came into force on 26th March 2012.

Debt Flagging

In June 2011 the CER issued a decision to allow the incorporation of a debt flagging facility into the change of supplier/shipper processes for Non Daily Metered (NDM) customers in the gas market and all customers with the exception of Large Energy Users (LEUs) in the electricity market. Debt flagging sees a debt flag raised where a customer with arrears above specific thresholds seeks to switch supplier. Once raised, it is up to the supplier, to whom the customer wishes to switch to, whether or not to proceed with the switch.

The CER approved the introduction of this measure in light of ongoing concerns from energy suppliers and consumer organisations that, in the current economic climate, customer and industry debt levels are being exacerbated by some customers changing supplier in order to avoid paying their
arrears or, to avoid disconnection. This practice of “debt hopping” is considered to raise costs for energy suppliers, and consequently for all consumers, and further compounds an individual’s debt situation making it more difficult to manage in the long run.

Market Monitoring
With the transition to full deregulation and the provisions of the Third Package (which were transposed into national law, as referred to earlier) the CER reviewed its current retail market monitoring framework in 2011 and published a consultation on an enhanced framework. The review has been based on best practice. It proposes looking at a broad range of indicators which consider market structures, retail market outcomes and customer satisfaction (including in relation to the prices and choices that the market produces such as diversity of tariffs and contracts, end user prices and the price spread for comparable products).

While the consultation on the new monitoring framework, published in December 2011, is ongoing, the CER continues under the existing framework, which monitors key market indicators such as market share, switching rates, complaints and disconnections, suppliers’ compliance with Codes of Practices and supply licences, and direct customer experiences (via annual survey and complaints). These market monitoring activities in conjunction with the general customer protection measures will ensure that consumers benefit through the efficient functioning of the retails markets and in doing such, fulfill the key retail aims of the Third Package.

Background to Energy Customers Team
The CER has a statutory responsibility to provide a complaints resolution service to customers with an unresolved complaint with their supplier or network operator. The CER’s Energy Customers Team (ECT) fulfils this role for domestic and small business customers through a dedicated complaints resolution service.

Additionally, the Team provides a customer awareness and information service via its www.energycustomers.ie brand and website. The website, www.energycustomers.ie, aims to provide clear information, to empower customers to make informed choices as competition develops in the energy industry. This includes information on their rights, energy suppliers’ Codes of Practice and also explains what to do if they experience problems with their bills, their connection to the electricity or natural gas network or other energy supply related issues. The www.energycustomers.ie website also provides guidance and assistance to customers wishing to access the CER’s transparent, free and easy to use complaint resolution service for domestic and small business customers with unresolved complaints.

Customer Protection in 2011
The Energy Customers Team saw a significant increase in the level of customer contact in 2011. While contact levels in 2009 and 2010 were similar at around 1930 per year, 2011 saw a 43% increase, with 2,770 customers needing to use the service.

There was no one identifiable trigger issue for customers. However the increase was more likely due to wider recognition of the functions of the CER and customers becoming more aware of energy issues. Due to the increase in contact with customers, the ECT focused its actions on maintaining the operational service in 2011.

Year on Year Customer Contacts With Energy Customers Team

As can be seen from the graph above, with the exception of November and December, customer contact with the CER increased when compared to 2010 data. When the level of contact is broken down between suppliers, it can be seen that the highest level of contact in 2011 was with Airtricity customers at 38% of all contact, double the contact level of the next highest supplier Electric Ireland. This should be seen in the context of supplier market shares discussed earlier.

Customers may not have stated their supplier or network operator or may have contacted the ECT with a general query not related to any specific supplier or network operator.

More information on the work of the CER’s Energy Customers Team will be published in the Energy Customers Team Annual Report 2011.
Task 2: Progress all-island Common Arrangements for Gas (CAG)

This key task involved the following primary aim:

Developing the arrangements for System Operation, continuing work on CAG tariffs, consulting on the CAG code of operations and continuing to progress the following workstreams:

- Security of Supply;
- System Planning & Development and
- Licensing & Legislation

Background

The CAG is a cross-border project, which is being led by the CER and the Utility Regulator (referred to jointly as the Regulatory Authorities or RAs). Its aims are to create fair and transparent arrangements across the island of Ireland, whereby all stakeholders can buy, sell, transport, operate, develop and plan the natural gas market north and south of the border effectively on an all-island basis.

The CER and Utility Regulator signed a Memorandum of Understanding (MoU) on 14th February 2008 in relation to CAG under the All-Island Energy Market Development Framework. Under the MoU, the Regulators decided to develop plans to operate the gas transmission systems in Ireland and Northern Ireland on a single, all-island network basis. Work commenced on the project in 2008 and considerable background work has been achieved between the RAs and the Transmission System Operators (TSOs).

Recent Developments

However, the project, which was delayed pending certainty around legislative requirements, recommenced in 2011 with the publication of a CAG work plan and key work streams. These included legislation and licensing, CAG System Operator establishment and implementation, All-Island Transmission and Distribution Code of Operations, Transmission Tariffs, Common Retail Market Arrangements. The following were the agreed high-level timelines for CAG implementation:

- By October 2012 - an All-Island Unified Transmission & Distribution (T&D) Code with opt-outs for Northern Ireland Distributors. The code will facilitate common emergency procedures.
- By October 2014 - an All-Island T&D Code with no opt-outs and common retail arrangements, including a single change of supplier process.

The RAs followed this up with a series of intensive consultation exercises and workshops with stakeholders. These included workshops and formal consultations on the CAG Code high-level principles, Harmonisation of the Moffat Entry Tariff, Transmission Network Tariff for Gas Storage, and also a number of CAG Code business rules consultations relating to capacity, nomination and allocation, balancing and shrinkage, financial security, payment and invoicing.

The RAs have worked closely with each other, with the Departments and with the industry in seeking to progress the CAG project; however, in April 2011 it was acknowledged that there were still substantive outstanding issues awaiting resolution. In particular system modelling highlighted physical capacity limitations of the respective networks that would inhibit the operation of a single physical balancing regime on the island. In addition, the CER considers there is a need to keep the original Cost Benefit Analysis for CAG under review to ensure that it will provide benefits to gas customers in Ireland.

Accordingly, the CER has embarked on two studies in relation to CAG. The first, which was commissioned jointly with the Utility Regulator, will examine the issue of single balancing zone within CAG and assess the costs, benefits, risks, opportunities and timelines associated with the single balancing point (both virtual and physical). The CER is also carrying out its own more general Cost Benefit Analysis update study on CAG to ensure that the underlying goal of delivering mutual benefits to Irish customers is likely to be met. Both studies are expected to be concluded later in the Summer of 2012 and will feed into the implementation of the CAG project.

Given this delay in the CAG project, it has become necessary to focus on meeting compliance with EU requirements relating to the South-North gas pipeline - a gas transmission pipeline that spans both the Irish and Northern Irish jurisdictions - as early as possible. Achieving compliance with EU Regulation 1775/2005 in practice involves putting arrangements in place so that market participants can have third party access to the pipeline. The CER is working with the TSO to put these arrangements in place as a matter of priority.
Task 3: Progress Smart Metering

This key task involved the following primary aim:

Conclude cost-benefit analyses and decide on next steps regarding smart meter rollout.

Background

Smart meters are the next generation of meters, which can replace existing electro-mechanical and diaphragm meters. They offer a range of benefits for both the individual electricity and gas customer and for the electricity and gas systems in general. A smart meter is an electronic device that can measure the consumption of energy more regularly than conventional meters, providing more up-to-date information to the customer and facilitating more “time of use” tariffs. A key feature of a smart meter is the ability to provide bi-directional communication between the customer and supplier/network operator. Smart metering can:

(i) facilitate improving energy efficiency by empowering consumers with more detailed, accurate, and timely information regarding their energy consumption and costs; and.
(ii) reduce overall energy consumption;
(iii) reduce overall energy bills by helping to shift any discretionary electricity usage away from peak consumption times through “time of use” tariffs.

The benefits of smart metering are recognised internationally and there are a number of key EU legislative instruments promoting smart metering to ensure that consumers are properly informed of actual energy consumption and costs frequently enough to enable them to better regulate their energy consumption.

The CER, working closely with the Department of Communications, Energy and Natural Resources (DCENR), established the Smart Metering Programme Phase 1 in late 2007 with the objective of setting up and running smart metering trials and assessing the costs and benefits of a national smart metering rollout. This was in order to inform decisions relating to the full rollout of an optimally designed universal National Smart Metering Programme.

Smart Metering Programme governance structures have been in place since early 2008, including a Smart Metering Steering Group and a Working Group, established and chaired by the CER. These groups are designed to draw on the valuable experience and expertise of the electricity and gas industries and thus consist of representatives from the DCENR, the Sustainable Energy Authority of Ireland (SEAI), ESB Networks, Bord Gáis Networks and Irish gas & electricity suppliers. In addition, the Economic and Social Research Institute (ESRI) was engaged by the CER to partner delivery of the cost-benefit analyses.

Various smart metering electricity and gas trials for residential and small-to-medium (SME) business consumers were planned and designed during 2008/09 and began in 2009/10, with completion in 2011. Associated cost-benefit analyses for the national rollout of electricity and gas smart metering were also completed in 2011 using the findings of the various trials.

Smart Metering in 2011

The year 2011 represented a particularly successful year for key achievements on the Smart Metering Programme, with the culmination of the work on the various smart metering trials and cost-benefit analyses which were completed during the year. The CER published the findings reports relating to the electricity trials and CBA in May 2011, followed by the equivalent gas reports in October 2011. This comprehensive information set was then used by the CER to inform its proposals relating to the national rollout of electricity and gas smart metering which were consulted on in November/December 2011. A Decision Paper is due to published by the CER in 2012.

The following is a summary of key achievements during 2011:

- Completed consultation process for developing smart metering full rollout assumptions to be used in the cost-benefit analysis in January 2011;
- Completed electricity customer behaviour trials and published report in May 2011;
- Completed electricity technology trials and published report in May 2011;
- Completed cost-benefit analysis for electricity smart metering and published report in May 2011;
Completed gas customer behaviour trials and published report in October 2011;
Completed dual-fuel technology trials and published report in October 2011;
Completed gas smart metering cost-benefit analysis published report in October 2011;
Published consultation paper in November 2011 outlining proposal for a national smart metering rollout. Consultation responses were published in January 2012.

Further details on the smart metering customer behaviour trial results and the national rollout consultation are provided below.

Summary of Key Findings
The key deliverables of Phase 1 of the National Smart Metering Programme, namely the electricity and gas smart metering trials findings reports and cost-benefit analyses reports (as depicted below), have been published by the CER during 2011, as follows.

This combined suite of electricity and gas smart metering information set that can inform CER, DCENR, and stakeholders of the possible merits of providing smart electricity and gas meters to residential and SME (small-to-medium enterprise) consumers in Ireland. In addition, the cost-benefit analyses help cast light on the relative attractiveness of various design options for implementation of smart metering and the main sources of risk associated with a national smart metering rollout. At a high level the findings from these detailed reports indicate that:

- A national rollout of electricity and gas smart metering and associated initiatives should assist customers in being more efficient in their use of electricity and gas, and as a result reduce their electricity and gas costs and their carbon emissions. These trials showed that, combined with In-home Displays and “time of use” tariffs in electricity (see images), a national rollout of smart meters could lead to a 2.9% reduction in overall gas consumption, a 2.5% reduction in overall electricity consumption and an 8.8% reduction in peak-time electricity consumption.
There is quantifiable net benefit to Ireland, often substantially so, arising from the different national electricity and gas smart metering rollout options analysed. With the optimal combination of electricity and gas national smart metering rollout options being selected the net present value (NPV) benefit to be achieved would be circa €229 million over a period of 20 years. On other words the benefits arising from smart metering - mainly from energy network operator-related efficiencies, customer energy usage efficiencies and electricity generation-related efficiencies achieved by lower energy consumption (especially at peak times) - more than outweigh the costs of rolling out smart metering nationally by circa €229 million.

There are a number of potential costs and benefits from a national rollout of smart metering that are very difficult to put a robust quantifiable estimate on and therefore were excluded from the quantifiable cost-benefit analysis, such as facilitation of and/or synergies with a “smart grid” implementation, micro generation and development of electric vehicles. Generally, these exclusions reflect the conservative approach taken to the quantifiable cost-benefit analysis, which tends towards a likely underestimation of the potential benefits from a national electricity smart metering rollout.

The rollout of smart metering would represent a major national infrastructure project, potentially requiring an investment of up to €1 billion. As mentioned above, the cost-benefit analysis shows that the long-term benefits should clearly exceed these investment costs and that there are likely to be further non-quantifiable benefits also. Taking all this together, the case for proceeding with the full-scale rollout of smart meters seems very clear, and this is strengthened further when EU legislative requirements are considered.

National Rollout Consultation

Following the positive findings from the trials and cost-benefit analyses, the CER issued a consultation paper in November 2011 outlining that it is minded to proceed with a national rollout of electricity and gas smart metering in Ireland. This consultation paper also outlined proposals, drawing from European and national legislative requirements as relevant, regarding the high level objectives, data requirements, design, functionality, implementation approach and timelines for the national smart metering end-to-end solution.

The consultation period closed in December 2011 and 35 responses were received. After considering the responses received, the CER is due to publish its final Decision Paper on the national smart metering rollout in 2012.

It is envisaged that this Decision Paper, by finalising the national smart metering rollout decision and firming up on its high level design and requirements, will enable the CER to move the National Smart Metering Programme into Phase 2, where the high level design and requirements will be elaborated upon with the involvement of all relevant stakeholders under an appropriate governance structure and against a detailed implementation plan.
Task 4: Single Electricity Market (SEM)

The following SEM-related work was intended for 2011:

- Progress all-island SEM regional market integration regarding interconnector use;
- Implement regulatory changes decided on from the market power & liquidity review;
- Implement any decisions from the Scheduling & Dispatch workstream; and,
- Finalise the medium-term capacity payment review.

Background

The Single Electricity Market (SEM) is the wholesale electricity market for the island of Ireland, regulated jointly by the CER and its counterpart in Belfast, the Northern Ireland Authority for Utility Regulation (Utility Regulator), and together referred to as the Regulatory Authorities or RAs. By combining what were two separate jurisdictional electricity markets, the SEM became one of the first of its kind in Europe when it went live on 1st November 2007. The SEM is designed to provide for the least-cost source of electricity generation to meet customer demand at any one time across the island, while also maximising long-term sustainability and reliability.

The decision-making body which governs the market is the SEM Committee, consisting of the CER, the Utility Regulator as well as an Independent Member (who also has a deputy), with each entity having one vote.

The SEM includes a centralised all-island gross mandatory pool (or spot) market. In this pool electricity is bought and sold through a market clearing mechanism, whereby generators bid in their marginal cost and receive the System Marginal Price (SMP) for each trading period for their scheduled dispatch quantities, with the cheapest possible generators run to meet demand across the island. Generators also receive separate payments for the provision of available generation capacity through a capacity payment mechanism, and constraint payments for differences between the market schedule and the system dispatch.

Suppliers (to electricity customers) that purchase energy from the pool, pay the SMP for each trading period along with capacity costs and system charges.

The SEM pool is illustrated below, while the SEM rules are set out in detail in the Trading and Settlement Code.

Overall, the SEM facilitates the running of the cheapest possible generators, determined by the stack of generation bids, to meet customer demand across the island.

During 2011 the Regulatory Authorities continued to monitor and oversee the SEM and the suite of regulatory rules governing it. From the setting of directed contracts to the monitoring of generators’ compliance with the bidding principles to oversight of the market rules, the Regulatory Authorities have been actively supervising the SEM and representing the interests of all-island consumers.

The Regulatory Authorities are of the view that the SEM in the main is continuing to work well, in accordance with its objectives, and is delivering fair and cost-reflective prices. Assisted by clear market rules and transparency, the SEM has encouraged new efficient generators into the market (in both Ireland and Northern Ireland), helping to put downward pressure on customer prices and providing security of supply and environmental benefits.

In 2011 the Regulatory Authorities continued with a series of development initiatives to meet the challenges facing the market, such as increasing levels of intermittent generation and the need to facilitate new interconnection with neighbouring market. The key areas of SEM work in 2011 and other related work issues are shown below. Further details are also available in the SEM Annual Report.
European Market Integration

In 2011 the SEM Committee continued to progress work related to increasing electricity market integration with neighbouring jurisdictions, and across Europe. This work is being achieved through the France, UK and Ireland (FUI) electricity regional initiative and through the Agency for the Cooperation of Energy Regulators (ACER).

FUI

One of the key work items completed by the FUI regional group of Regulators during 2011 was the approval of coordinated interconnector access rules across the region. The access rules for FUI interconnectors were coordinated as extensively as possible given differing trading systems in SEM / BETTA and in the French market. Coordination of access rules for Interconnectors is required by European congestion management rules and is a necessary to reduce barriers to cross-border trade and increase the efficiency of interconnector flows, to the benefit of customers. Following consideration the final access rules for Moyle and East West interconnectors (from Northern Ireland and Ireland to the UK respectively) were approved by the SEM Committee and Ofgem in October 2011.

ACER Framework Guidelines

ACER was established as part of the Third Energy Package in 2009, which is the set of EU legislative measures that aims at creating a single competitive European energy market. One of ACER’s key tasks is to further the development of the single European electricity market (which all Member States have committed to) through the development of Framework Guidelines in key work areas. These Framework Guidelines will form the basis of Network Codes that will be developed by the European Network of Transmission System Operators (ENTSOE) and will become legally binding through the European’s Council’s comitology process, which involves the European Commission and Member State representatives agreeing final legislative texts before they pass into law.

The SEM Committee is represented at various ACER Working Groups and Task Forces through the membership of CER and Ofgem. In 2011 four ACER Framework Guidelines relating to policies on Grid Connections, System operation, Capacity and Congestion Management and Balancing were progressed as shown below. SEM Committee views on these issues were shared with ACER colleagues by the RAs.

- The Framework Guidelines on Grid Connections seek to set minimum standards for network connections in order to maintain system security, availability and the proper functioning of the electricity market from a technical point of view. The final Framework Guideline on Grid Connection published by ACER in July 2011.
- The Framework Guidelines on System Operation aim at setting out clear and objective principles for the development of a network code(s) on system operation covering the complete area of activities for operating an electric power network, including security, control and quality in terms of fixed technical standards, principles and procedures, but also the synchronous operation of interconnected power systems. The final Framework Guidelines on System Operation was published by ACER in December 2011.
- The Framework Guidelines on Capacity and Congestion Management seek to establish a competitive Internal Energy Market in the EU by ensuring non-discriminatory access to the networks and cross-border trade over interconnections between control areas. The final Framework Guidelines on Capacity and Congestion Management were published by ACER in July 2011. The implications of this for SEM are discussed in more detail in the next section below.
- The Framework Guidelines on Electricity Balancing aim to integrate balancing markets in order to contribute to system security and increase market efficiency at EU level. The scoping phase for the Framework Guidelines on Balancing...
was completed during 2011. To this end, an industry workshop was held by ACER in October 2011. The scoping phase looked at issues such as procurement and activation of balancing services, reservation of cross-border capacity and imbalance settlement. A full public consultation on the Framework Guideline is planned for April 2012.

In addition the European Commission is developing Guidelines on Governance of Market Coupling Arrangements between Member States and on Market Transparency. The SEM Committee comments on these guidelines through ACER participation. For information on “REMIT” as well as gas-related Framework Guidelines, please see Key Task 8.

**SEM Market Integration Project**

Fully integrating the SEM in its current form into the emerging EU internal electricity market will pose a significant challenge, in particular for the day-ahead and intra-day target models set out in the SEM Framework Guidelines for Capacity Allocation and Congestion Management (CACM).

Since the CACM consultation concluded in June 2011 and following the SEM Committee response to this, the RAs worked with ACER to acknowledge the difficulty associated with reaching the target models considering the present SEM design. This was achieved through the insertion of drafting which would allow for SEM to transition to the target model by 2016, which allows the SEM Committee and Member States to implement the Target Model in a planned and efficient manner. This facilitation of additional time for SEM to meet the target model is accommodated in the final CACM which was adopted by ACER on 29th July 2011.

At their July 2011 meeting the SEM Committee asked that the RAs lead a project team involving the TSOs and the SEM Market Operator (SEMO) with the initial objective of providing a report to the RAs and the SEM Committee by December 2011 on the identification of feasible options for SEM to give effect to compliance with the target models for the internal electricity market by 2016.

A project initiation document related to this work was published by the SEM Committee on the 8th August 2011. To date, this project has involved significant engagement with relevant European stakeholders, particularly regulators, TSOs and Power Exchanges in the FUI region and elsewhere. Furthermore given the importance of this project for future SEM design, regular briefings have been given to the respective Member States and a number of workshops have been held for market participants and interested stakeholders.

The SEM Committee’s consultation paper “Proposals for Implementation of the European Target Model for the Single Electricity Market” was published on 24th January 2012. The Consultation Paper sets out a description of the SEM, the European context and Target Model Proposed, evolutionary and revolutionary options for Target Model Implementation and related legal and governance issues. Work will continue on the project throughout 2012.

**SEM Market Power and Liquidity**

In 2010 the Regulatory Authorities, on behalf of the SEM Committee, commenced a review of market power and contract liquidity in the SEM. The overall aim of this project was to identify practical ways in which the RAs can further promote competition in the SEM by reducing/mitigating market power and/or improving contract liquidity over the course of the next 10 years. In this context the project also examined the various components of ESB’s proposed re-integration of its businesses.

The RAs appointed consultants, CEPA, to undertake an independent review of market power and liquidity in the SEM, including ESB’s integration proposals. CEPA’s report, along with an RA cover paper, was published for public consultation from 16th December 2010 through to 22nd March 2011. The SEM Committee then considered the CEPA paper and the public responses to it. It also considered ESB’s new “partial vertical integration proposal” received in June 2011 and CEPA’s subsequent report on that proposal. Following from this, and taking on board consultation responses, in November 2011 the SEM Committee published a draft decision paper for final consultation. This paper proposed to:

- Maintain the Bidding Code of Practice, Market Monitoring Unit and Directed Contracts (BCoP, MMU and DCs) as SEM market power mitigation measures for the foreseeable future. This is because the SEM spot market is quite highly concentrated and CEPA’s spot market modelling analysis for 2015/20 indicated that, while ESB's market power would not be at levels of concern on average, there would still be certain hours/scenarios when the RSI is below 1.2, the threshold that typically suggests market power potential. If the spot market becomes significantly less concentrated in the future, the Committee would then review these market power mitigation measures.
- Not allow ESB vertical (generation-supply) integration for now, but allow the horizontal integration of ESB generation units from October 2012, given the low market power risks involved.
- Continue with the current 1,150 HHI level for the determination of DC volumes; DC volumes from the horizontal integration of ESB (referred to above) are expected to increase significantly from 2010/11 levels. That said, the SEM Committee will continue to monitor the market and if there is any evidence of market power being exercised and liquidity levels significantly falling, the Committee reserves the right to take further action, including the lowering of the HHI threshold.
- In relation to contract liquidity, not establish a market maker or to mandate contracts from generators at this time as liquidity is generally best developing “organically” through industry/market initiatives, such as the new “Over the Counter” (OTC) facility for NDCs. However, there may be a
case for proceeding with such an approach in the future, in the context of the integration of SEM into European markets. The Regulatory Authorities’ Market Integration Project Team will lead this work and any initiatives in this area will be fully consulted on by the Regulatory Authorities at the appropriate time.

Generally there was a favourable market participant response to the draft decision’s proposals. A final decision on this matter was made by the SEM Committee in February 2012, with no substantial policy change from the draft decision. This brought the workstream to a close from a policy perspective.

Dispatch and Scheduling
In 2008 the SEM Committee published a discussion paper setting out key issues arising from increasing levels of wind generation on the island of Ireland and potential solutions to those issues in the context of the SEM. Following receipt of comments, a paper was published in Autumn of that year setting out initial responses to those comments and next steps.

One area of further work identified here was the need to further consult on relevant scheduling and dispatch matters. This was progressed with the publication of a consultation paper in July of 2009 regarding principles of dispatch and the design of the market schedule under the Trading and Settlement Code, which was followed by a proposed decision paper in 2010. A decision paper was then published in August 2011 setting out the SEM Committee’s decisions on the matters examined by the consultation, including the principles underlying the dispatch of priority dispatch price-taking generation in the SEM.

A consultation paper regarding the dispatch of such generators in “tie break” situations and associated matters under the Trading and Settlement Code was also published at that time. A decision on tie breaks was published in December 2011. However it should be noted that section 3.5 (only) of that decision was subsequently withdrawn by the SEM Committee in 2012 and a further consultation on the matter of the treatment of curtailment in tie-break situations was published in April 2011. All other decisions made by the SEM Committee in that decision remain in place. This includes the decision in relation to the treatment of constraints in tie-break situations. This involves the identification by the Transmission System Operators (TSOs) of constraint groups and the treatment of constraints on a grandfathered basis with reference to level of firmness, within these groups.

Further work arising from the dispatch and scheduling decision regarding treatment of hybrid generators in dispatch, pricing of system operator trades to facilitate priority dispatch and monitoring of “material harm” in the SEM is ongoing.

Capacity Payment Review
In April 2009 the SEM Committee published a consultation paper documenting the scope of work that the Committee proposed to carry out in relation to a medium term review of the Capacity Payment Mechanism (CPM). The main purpose of this review was to examine if the current design of the CPM could be further improved to optimally meet its objectives. In November 2009 the SEM Committee published an information paper which set out the various work streams that form part of this medium term review.
During 2011 work continued on this area. Further to the two Discussion papers published in 2010, a final discussion paper on Work Package 6 onwards and a Draft Decision Paper were published in 2011. Key highlight points from the CPM Medium Term Review Draft Decision Paper were:

- The current CPM is generally working well and that there is no compelling need to make major changes to the current design and methodology;
- The SEM Committee do not believe that the design of the distribution allocation should be changed;
- The SEM Committee believes that the current 30%, 40% and 30% ratio of respectively the Fixed Ex-ante, Variable Ex-Ante and Variable Ex-Post weighting components gives the appropriate balance between a short term signal to provide the required capacity during periods of tight capacity margin, and the longer term certainty over capacity revenues for generators;
- The Forced Outage Probability % in the Capacity Requirement calculation should be increased to 5.91%;
- Infra Marginal Rent will be deducted from the BNE Cost of the Annual Capacity Payment Sum (ACPS) on an annual basis;
- In the BNE calculation Methodology Option 5 will be introduced to calculate the BNE in 2013 and keep the BNE Peaker Cost (€/kW/yr) in place for a 3 year period, with a level of indexing in 2014 and 2015. The Capacity Requirement will be recalculated annually; and,
- SEM Committee were recommending increasing the Flattening Power Factor to 0.5%.

Views were invited regarding all aspects of the proposals put forward in the draft decision paper. The comments received regarding the main elements for these proposed decisions and a final SEM Committee Decision paper was published on the 6th March 2012. There were no changes from the proposals contained in the draft decision. The SEM Committee decided that the proposals put forward in the Draft Decision paper will be fully implemented in the 2013 determination of the Best New Entrant Fixed Cost and the ACPS.

Following the advent of the SEM in 2007, new arrangements had to be introduced to provide for calculation of fuel mix information on an all-island basis. Further changes were required in relation to the methodology for fuel mix information determination post the introduction of Guarantees of Origin in Ireland. This is because Statutory Instrument No. 147 of 2011 which transposes Article 15 of Directive 2009/28/EC, required the CER to establish a Supervisory Framework for “Guarantees of Origin” for the purposes of fuel mix disclosure. The sole purpose of Guarantee of Origin is to prove to a final customer that a given share or quantity of energy was produced from renewable sources. To this end the SEM Committee consulted upon a revised method for the calculation of fuel mix disclosure in the SEM in July 2011 and issued a decision on this matter in November 2011. This decision and fuel mix disclosure information for previous years to 2010 can be found on the SEM and CER websites.

**Market Modelling Group**

Among other things, the RAs’ Market Modeling Group (MMG) is responsible for developing and monitoring various Contracts for Differences (CFDs) for participants in the SEM. Specifically, the MMG sets the price, quantity and supplier eligibility of Directed Contracts (DCs). The majority of the MMG’s forecasting SEM outcomes is over the short term (1 to 2 years), which is used to quantify/price DCs and forecast generator profits, although some medium and long-term forecasting is also carried out to inform the RAs’ policy decisions.

**SEM Directed Contracts**

As part of the SEM Market Power Mitigation Strategy, the RAs’ MMG implements a suite of DCs on behalf of the SEM Committee. Market Power is defined as the ability of a market participant acting independently, to raise (or reduce) market prices consistently and profitably above (or below) competitive levels for a sustained period of time. DCs are designed to significantly reduce the incentive on the incumbent generators to submit bids in the SEM above competitive levels or withhold capacity in order to influence SEM spot prices or future contract prices.

During 2011 the MMG’s work included:

- In-house Validation of the forecasting model (PLEXOS) and the dataset for SEM covering 2011 and 2012;
- Quantification and Pricing of DCs, for eligible suppliers, imposed on the incumbent generators (ESB Power Generation & NIE Energy Power Procurement Business) in the SEM as part of the Market Power Mitigation Strategy, covering the next contract year, i.e. from 1st October 2011 to 30th September 2012;
- Setting of auction reserve prices for Public Service Obligation (PSO) related CFDs;
- Monitoring the volume and prices of Non-Directed Contracts, which are typically offered by the incumbent generators (ESB Power Generation & NIE Energy Power Procurement Business) over and above the mandatory Directed Contracts; and,
- Modelling support to the RAs to help inform their policy on the SEM;

**Other SEM-related Work**

**Fuel Mix Disclosure**

Article 3(9) of Directive 2009/72/EC requires that Member States ensure that the contribution of each energy source to the overall fuel-mix of electricity suppliers over the preceding year and related environmental information are provided in or with bills sent by suppliers to final customers. This is referred to as “fuel mix disclosure”. The transposing legislation in Ireland requires the CER to ensure suppliers provide reliable fuel mix information on all bills and promotional materials issued to customers. Further to transposing legislation in 2006 placing a duty on the CER to ensure that suppliers provide reliable information to electricity customers in this regard, the CER consulted upon and determined a methodology for the calculation of fuel mix.

Views were invited regarding all aspects of the proposals put forward in the draft decision paper. The comments received regarding the main elements for these proposed decisions and a final SEM Committee Decision paper was published on the 6th March 2012. There were no changes from the proposals contained in the draft decision. The SEM Committee decided that the proposals put forward in the Draft Decision paper will be fully implemented in the 2013 determination of the Best New Entrant Fixed Cost and the ACPS.
Quantities of Directed Contracts
The quantities of DCs imposed on the incumbent generators are set to achieve a desired concentration level in the SEM as measured by the Herfindahl-Hirschman Index (HHI). A HHI threshold of 1,150 was chosen by the RAs and, at this HHI level, only ESB Power Generation (ESB PG) were required to sell DCs for the 2011/12 tariff year which runs from October 2011 to September 2012. Three DC products were required by the RAs to be offered by ESB PG – baseload, mid-merit and peak – in order to reduce market concentration in each segment for each quarter to a HHI of 1,150. No baseload contracts and no peak contracts were required in Q3 2012 and Q1 2012 respectively as the HHI in these segments for these quarters was already below 1,150.

The quantities of DCs which ESB PG were required by the RAs to offer to eligible suppliers to meet this HHI threshold are shown in the table below.

### ESB PG Directed Contract Quantities (MW)

<table>
<thead>
<tr>
<th>QUARTER</th>
<th>BASELOAD</th>
<th>MID MERIT</th>
<th>PEAK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2011</td>
<td>209</td>
<td>104</td>
<td>36</td>
</tr>
<tr>
<td>Q1 2012</td>
<td>154</td>
<td>73</td>
<td>0</td>
</tr>
<tr>
<td>Q2 2012</td>
<td>119</td>
<td>99</td>
<td>n/a</td>
</tr>
<tr>
<td>Q3 2012</td>
<td>0</td>
<td>154</td>
<td>n/a</td>
</tr>
</tbody>
</table>

The contracts were sold to eligible suppliers in two separate subscription processes by ESB PG. The table below shows the volume of DCs that ESB PG and NIE PPB were required to offer from the beginning of the SEM, related to their predicted generation output. The chart shows an increase in the total volume of contracts in the second and third years, then a significant reduction in the fourth year, followed by an increase last year.

Pricing of Directed Contracts
The prices of the DCs were determined each day during the subscription period using forward fuel and carbon prices and regression formulas determined by the RAs through econometric analysis. These formulas were designed to mimic the results of the validated SEM PLEXOS model. Using this methodology, the average prices for all DC products are shown in Euros and Sterling below.

<table>
<thead>
<tr>
<th>Product</th>
<th>€/MWh</th>
<th>£/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseload</td>
<td>70.38</td>
<td>62.90</td>
</tr>
<tr>
<td>Mid Merit</td>
<td>77.36</td>
<td>69.13</td>
</tr>
<tr>
<td>Peak</td>
<td>104.03</td>
<td>92.97</td>
</tr>
</tbody>
</table>

As shown the figure below the average price of DCs sold for the 2011/12 tariff year was higher than the previous year but significantly lower than the peak 2008/09 period, in line with the movements in international fuel markets.

PSO-related Contracts
In addition to the above contracts, ESB PG also offered generation associated with the Irish Public Service Obligation (PSO). The RAs determine the reserve prices (using the Validated PLEXOS model and up-to-date forward fuel prices) that these products are offered to the market at and they are auctioned off to suppliers. For the 2011/12 contract year the PSO-Related CfDs are being offered on a quarterly basis, with auctions occurring about a month ahead of the quarter in question. Contracts are being offered at monthly granularity with a mix of products between baseload, mid-merit 1 and mid-merit 2. This provides market participants with a good choice and mix of offerings/products.
Non-Directed Contracts
While the RAs legal remit on behalf of the SEMC largely extends to DCs, licensed generators can also offer Non-Directed Contracts (NDCs) to the market. The RAs do not set the price or quantity of NDCs as they are agreed on a bilateral basis between market participants. They do however take an active role in the monitoring and development of the NDC market by assessing the reasonableness of prices during the ESB PG and NIE PPB auction processes. The RAs have also worked with participants on the development of a multi-lateral trading facility which went live in April 2009. In addition a new “Over the Counter” (OTC) trading facility commenced in 2011. This should help to assist liquidity, by allowing for suppliers and generators to interact more with respect to NDC price and quantities, assisting in price discovery.

Generator Financial Reporting
During 2011 the MMG assessed key generator financial performance in the SEM, both historical performance using generator financial accounts and forecasts based on SEM modelling. This information was provided to the SEM Committee to inform them on the financial performance of generators in the SEM.

In addition, in December 2011 the Regulatory Authorities published a Consultation Paper setting out proposals for the collection and publication of information on generators’ financial performance. This paper set out a proposed financial reporting template to be completed by generator companies with a combined capacity greater than or equal to 20 MW. The paper also set out timelines for the annual publication by the RAs of a report covering profit levels of generators operating in the SEM. The consultation closed in early February 2012 and the RAs received a total of 13 consultation responses. Following on from this, a decision document was published by the RAs in May 2012, taking account of comments received to the public consultation. The key change from the consultation was that the reporting threshold for generator companies was increased to 25 MW and the RAs committed to only publishing data on individual generator) in order to preserve commercially sensitive data .

Market Monitoring Unit
The RAs’ Market Monitoring Unit (MMU) forms part of the SEM market power mitigation strategy, with the behaviour in the market is reviewed by the MMU on an ex-post basis. This includes investigating the exercise of market power in the spot market, monitoring the compliance of market participants with the spot market Bidding Code of Practice (BCoP) and other market rules and reviewing prices reported in the market.

The MMU continuously reviews generator participants’ behaviour in the market including investigations into the exercise of market power, monitoring the compliance of market participants with the bidding code of practice and other market rules.

Price Trends
There are several elements to prices in the SEM that are reviewed and monitored by the MMU:

- System Marginal Price (SMP): the price at which each MWh of electricity is sold under the Trading and Settlement Code in any given Trading Period. It is calculated on a half-hourly basis and is measured in Euros per Megawatt-hour (€/MWh). The SMP is made up of the sum of the shadow price and uplift;
- Shadow Price: a component of the SMP for each Trading Period which reflects the short run marginal cost (SRMC) of the marginal generating unit;
- Uplift: a component of the SMP for each Trading Period which is calculated to reflect the Start-Up and No Load Cost element of Schedule Production Cost for relevant Generator Units.

In 2011 the SMP rose 15% on average against the 2010 SMP. This rise is mainly due to the increase in the gas price for the same period. Market Scheduled Quantity (MSQ) fell 5% on average in 2011 compared with 2010, reflecting lower system demand. The graph shows the average daily profile for 2011, showing the SMP divided between the shadow price and uplift, as well as MSQ.

The long term trend of SMP has largely followed trends in fuel and carbon prices, especially gas prices given that gas is the key fuel for electricity generation across the island. It is also impacted on by the margin between demand and available generation capacity - hence typically SMP is higher over the winter months when electricity demand is high and fuel is usually more expensive. The relationship between the gas price and the SMP is shown below, where it can be seen that SMP closely follows the gas price, as you would expected from an efficiently functioning market on the island given that gas generation is so important to the island’s fuel mix.
In line with gas price changes in recent years, the average SMP fell from over €80/MWh in October 2008 to under €40/MWh for most of 2009, and then increased to over €50/MWh in 2010 and €62/MWh in 2011. This trend is shown in the graphs below.

Daily Average SMP since the start of the SEM

Monthly Average SMP History in the SEM

**SEM Locational Signals**

**Generator TUoS**

On 29th September 2011, the SEM Committee published its decision paper on the review of Generator Transmission Use of System Charging (G-TUoS) and the accompanying all-island G-TUoS tariffs for 2011/12. This workstream involved putting in place a harmonised methodology on the island for the calculation of TUoS tariffs which are charged to generators as users of the transmission system. The workstream was part of the Locational Signals project which had been ongoing since 2009 and sought to put in place appropriate signals in G-TUoS tariffs to promote optimum location of generation plants. This decision paper followed a decision by the SEM Committee in late 2010 in relation to the G-TUoS arrangements and methodology for the calculation of tariffs and further consultations in 2011 on some of the details of the methodology.

The SEM Committee’s decision involved the development and implementation of a “dynamic” forward looking locational signal model of tariffing for Generators. The methodology involves both a locational element and a “postage stamp” element.

In making its decision on G-TUoS tariffs for 2011/12, the SEM Committee also requested that the TSOs would carry out further analysis and produce a report for the SEM Committee in 2012 with regard to possible changes to the approved G-TUoS model.

**TLAFs**

In February 2011 the SEM Committee published its Terms of Reference for an impact assessment on the proposed “splitting” of the treatment of losses in the market schedule from that in the dispatch schedule. Following on from this, the RAs’ Market Monitoring Unit carried out the TLAF modelling analysis in line with the requirements of the Terms of Reference. The results of the modelling were presented to the SEM Committee in July 2011, when the SEM Committee requested that a full and detailed consultation on the TLAF “splitting” analysis and modelling results be carried out in advance of it moving to a decision on this workstream.

In November 2011 the SEM Committee published a paper on the Treatment of Losses in the SEM. The consultation period ended on 27th January 2012. The SEM Committee also encouraged market participants to carry out their own TLAF modelling and to include full details of their modelling in their submissions on this consultation.

**SEM Ancillary Services**

Ancillary Services refers to services provided generally by generators to the system other than energy and capacity. In the SEM they are operating reserve, reactive power and black start. The SEM Committee put in place Harmonised Ancillary Services Arrangements across the island in 2010. In 2011, the SEM Committee reviewed the operation of these arrangements on the island and approved revised rates for the various services.

**DS3 Programme**

Following on from the TSOs’ Facilitation Of Renewables studies (FORS) published in 2010, the Regulatory Authorities requested that the TSOs carry out further analysis and put in place a programme of actions in order to address the system operation challenges identified, bearing in mind renewable commitments - 40% of consumption targets by 2020 - and the requirements of Directive 2009/29/EC.

The TSOs have now, in conjunction with the Regulatory Authorities put in place a programme of work to resolve the challenges and concerns identified in the FORS studies and the Sustainable Power Systems report (published in 2011). This programme is called the “DS3 Programme – Delivering a Secure, Sustainable Electricity System”. The review of system
services (ancillary services) will be one of the key workstreams in the DS3 project. It involves the TSOs undertaking a detailed analysis of the requirements of the electricity system on the island of Ireland for system services to support the secure and reliable operation of the system as levels of non-synchronous wind penetration increase.

The RA’s role in this workstream is to review and consider the options and proposals put forward by the TSOs (and also by the industry) and to make a decision through the SEM Committee on the outcome of the DS3 System Services review. The SEMC is also involved in monitoring progress throughout the programme and ensuring that the interests of the all-island customer are protected.

The overall programme contains 11 separate workstreams including system services (Ancillary Services), Grid Code and frequency control workstreams. Delivery and implementation of the DS3 programme is the responsibility of the TSOs. The Regulatory Authorities’ role is to act in an oversight manner and to make decisions in key areas of relevance to the regulatory framework on the island.

The first consultation (lead by the TSOs) on the DS3 system services review commenced in December 2011. This was a high level consultation seeking views from interested parties on a range of questions related to the provision of system services. The second consultation is being developed by the TSOs and will be presented in the Q2 2012 to the SEM Committee for publication. This consultation will provide information on the new services which the TSOs believe will be required for the system in 2020.

Ireland’s Security of Supply and PSO
In addition to SEM work areas, the CER has responsibility in relation to security of supply and other generation-related matters for Ireland only. It also implements the Public Service Obligation (PSO) levy. Some of the key work items that occurred in these areas during 2011 are highlighted below.

Plant Licensing
The CER has a statutory function of issuing licences to Generate and Authorisations to Construct pursuant to Section 14 & 16 of the Electricity Regulation Act 1999. In 2011 9 new authorisations were issued by the CER.

A summary of Authorisations and Licences granted by the CER in 2011 is summarised below.

<table>
<thead>
<tr>
<th>Authorisations Granted</th>
<th>Total</th>
<th>Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which wind</td>
<td>8</td>
<td>171.5</td>
</tr>
<tr>
<td>Of which CHP</td>
<td>1</td>
<td>2.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Licences Granted</th>
<th>Total</th>
<th>Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which wind</td>
<td>13</td>
<td>206.2</td>
</tr>
<tr>
<td>Of which CHP</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>Of which Diesel</td>
<td>2</td>
<td>17.6</td>
</tr>
<tr>
<td>Of which Biomass</td>
<td>1</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Security of Supply
The CER has a duty to promote continuity, security of supply and quality of the supply of electricity. The CER also monitors the security of supply of electricity and can take such measures as it considers necessary to protect it.

Mainly due to the continuing weak economic conditions, total electricity demand in Ireland has continued to be depressed. A slight rise in demand in 2010 was due to some unusually inclement weather at the end of 2010. However in 2011 demand was dampened again due to ongoing economic uncertainty. The consumption declined at a rate of 3.23%. The graph shows the weekly peak demand for the years 2009, 2010 and 2011.
A record system peak demand of 5,090 MW was set in December 2010, while the 2011 system peak demand was 4,644 MW at 17:45 on Wednesday 5th January 2011. At peak demand in 2011 the total available dispatchable plant was 6,246 MW, wind contributed 143 MW and there was an import flow of 56 MW on the North-South tie line, which gives a very comfortable margin at peak of 1,801 MW.

More generally 2011 saw the continuing connection of largely renewable energy onto the system. A record of 1,474 MW of wind generation was seen on 26th November 2011. Also renewable energy onto the system. A record of 1,474 MW was set in Ireland at the end of 2011.

Installed capacity by fuel type connected to the electricity system at the end of 2011

- 20.71% Natural Gas
- 50.8% Coal
- 3.76% Oil
- 3.76% Peat
- 3.06% Hydro Win
- 11.11% Wind
- 2.8% Pumped Hydro
- 3.93% Other Renewables

As shown above, the largest fuel type used is natural gas. Given this significant reliance on natural gas it is in important to ensure that secondary fuel arrangements are in place to ensure that there is no interruption to electricity supplies if there is a disruption to gas supplies. At present natural gas fuelled generators are required to hold secondary fuel stocks of between 3 and 5 days. A testing regime is in place whereby secondary fuel capabilities are tested on an annual basis. EirGrid monitors compliance with the arrangements and provides reports to the CER.

The CER chairs the Task Force for Emergency Procedures (TFEP) group that considers matters relating to contingency and response planning in relation to electricity or gas emergencies. The TFEP also liaises regarding security of supply issues. The Group consists of representatives from the CER, Department of Communications, Energy & Natural Resources, Gaslink, Bord Gáis Networks, EirGrid and ESB Networks. A major focus of the Task Force has been the creation of mutually greed procedures and chain of communication in the event of an emergency. Specific focus has been given to the testing of communications protocols in the event of a complete blackout. During 2011 these were tested by relevant parties through the use of paper drills.

During 2011 Exercise Gaillean was conducted to rehearse the management of widespread disruption to the energy network. The exercise focused on a number of areas including (a) how telecoms/energy network would respond to an emergency; (b) the government coordination that would be require, (c) how information would flow between industry, central and local government; and, (d) how information would be relayed to the media. A number of recommendations were made on foot of this exercise included the need for a more supple and streamlined communication procedures that ensured that all stakeholders are communicated with effectively regarding the issues. Further recommendations were established regarding the priority to be given to critical infrastructure and the means to ensure that back up requirements were more rigorously defined and complied with.

During 2011 major energy infrastructure change was hailed in Ireland with progress on the East-West Interconnector, which is due to go live for commercial operation in late 2012. This 500 MW High Voltage Direct Current (HVDC) connection to Britain will fortify Ireland’s energy security position. This interconnector will connect the growing renewable connections in Ireland to a wider European grid, thus suitably absorbing additional non-synchronous capacity (primarily wind).

**PSO Levy 2011/12**

The PSO levy is designed to support certain peat, gas and renewable generation plant as mandated by Government and approved by the European Commission. The underlying policy objectives are security of energy supply – including the use of indigenous fuels - and the promotion of renewable energy generation. The policy and terms and conditions associated with PSO levy supported generation are mandated by Government and approved by the European Commission.

The levy is calculated by the CER each year in accordance with the relevant legislation Electricity Regulation Act 1999 (Public Service Obligations) Order 2002 (S.I. No. 217 of 2002) and particular terms of the various PSO schemes. The CER’s decision paper on the PSO levy for the period October 1st 2011 to September 30th 2012 was published in July 2011. The total levy for this period amounts to €92.12m.
Task 5: Review of Bord Gáis Networks Revenue

This key task involved the following primary aim:

The CER will commence its 5-year review process of Bord Gáis Networks’ (BGN’s) allowed revenue and related tariffs covering the gas years 2012/13 to 2016/17. This review will focus on value for money for customers, efficiency gains and investment plans required to maintain and develop the gas network.

Background

This workstream involves the five-yearly review of the gas network utility, Bord Gáis Networks (BGN), and sets the amount of revenue that it can recover from its customers over the five year period from October 2012 to September 2017. The review involves an assessment of the utility’s investment plans and operational costs for that period, and an assessment of its performance over the previous five years.

The CER’s responsibilities involve regulating the level of revenue which the monopoly gas network operator and owner can recover from customers to cover their costs. Bord Gáis Networks owns the entire network. Gaslink currently operates the system, but since it is anticipated that Gaslink’s role will revert to Bord Gáis Networks in the near future, only Bord Gáis Networks is referred to below.

If unregulated, monopolies could be inefficient and impose prices that were too high so, as set out in legislation, the CER regulates the network utility’s activities and income. This is in order to protect the interest of gas consumers, while ensuring that the utility can fulfill its obligations and deliver secure gas supplies.

Every five years the CER sets the amount of money that the utility can collect from gas customers for the following five years. The revenue is set at a level that would allow a well-run business to fund its activities. It is set through a combination of examining the specific underlying costs of the relevant utility and benchmarking against best international companies in this field. Through this review the utility is incentivised to operate efficiently and to make cost reductions while providing appropriate levels of customer service. The allowed revenue is collected from suppliers via transmission and distribution network tariffs which are then recovered from final customers. These form approximately 11% and 30% of the current final domestic gas bill respectively.

This five year approach is in line with best international practice, and is used by other energy regulators as well as in a number of other regulated sectors. It ensures that consumers are protected, while offering the regulated businesses a clear and stable environment. This allows the network utility to make the necessary investments to ensure modern and efficient transmission and distribution systems and appropriate levels of customer service.

5-Year Revenue Review

In 2011 the CER initiated its review of the gas network utility and the revenue that it can recover from its customers over the October 2012 to September 2017 period. The review involves an assessment of the utility’s investment plans and operational costs for that period, and an assessment of its performance over the previous five years.

As part of this process, the CER is engaging in a lengthy consultation process with the utility and the wider public. An initial consultation paper, or information note, was published in April 2011. It asked interested parties to comment on the CER’s focus for the gas networks five-year review. The CER stated it does not consider it appropriate to review again for Price Control 3 - for example, the use of straight line depreciation policy. Instead the CER proposed to focus its resources on other elements of the review such as ensuring efficiencies are reflected in operational and capital costs.

During the remainder of 2011, the CER undertook an extensive process of engagement with the utility. This involved the development and provision of questionnaires to the utility and analysis.

To provide advice and complete analysis over the course of the review, the CER has engaged the services of two independent consultancy firms. Cambridge Economic Policy Associates (CEPA) is reviewing efficiency levels, and both historic and forecast operating costs and capital investment. Oxera is providing advice on the allowed rate of return required on capital investments to ensure that the capital programme can be funded.

This review and analysis is continuing into the first half of 2012. Again, the focus of this review will be on whether the utility’s historic costs and its projected forecast costs are efficient and provide “value for money” to customers.

The CER published a further consultation on this in May 2012. Two separate consultation papers (one for transmission and one for distribution) make proposals on the level of revenue that the network utility can recover from customers to cover its costs over the October 2012 to September 2017 period.
Following receipt and consideration of all comments, the CER will then move to a decision on the matter. That decision will facilitate the setting of annual network tariffs for the October 2012 to September 2017 period, and also for all subsequent yearly periods to end September 2017.

Regulatory Treatment of BGE Interconnectors
Separate from the 5-year revenue review, but related to the general gas networks charging regime, in 2011 the CER initiated a consultation process for dealing with the Regulatory Treatment of the two BGE Interconnectors with Great Britain (“the ICs”). The underlying policy issues have been known for some time and reflect very much the particular features of the Irish gas wholesale market.

Imports of gas across the ICs account for over 90% of Irish gas supplies. Ireland is effectively a gas price taker with the wholesale market clearing price being set by the GB national balancing point price plus the cost of transporting that gas across the ICs (i.e. the IC tariff). The IC tariff will likely continue to set for the foreseeable future the marginal price of gas in Ireland. However, new sources of gas coming on stream would result in a decrease of flows across the ICs. Assuming the current tariff regime remains unchanged this, in turn, would force up the cost of importing gas from the UK through higher IC tariffs. This increase in tariffs would give an incentive to owners of new sources to increase their gas prices to just under the IC price, which would lead to an overall increase in the price of gas for customers.

For some while now, the CER has indicated that the regulatory treatment on the two gas interconnectors between Ireland and Moffat in Scotland was being kept under review and in January 2011 published a Consultation Paper on the matter. The paper focussed in particular on the security of supply benefits afforded by the interconnectors.

Following responses, which raised broader issues such as the volatility interconnector tariffs setting a high price for gas on the island, the CER set out a broader and more detailed examination of the issues in a consultation paper in July 2011 which focused on, among other things, what it termed the “diversity premium” associated with the current regulatory treatment of network tariffs. The paper also discussed investor incentives and tariff volatility. The paper set out four high level options that it considered to be the most appropriate as a mechanism for dealing with the regulatory treatment of the ICs:

(i) “Do nothing”;
(ii) Strand the unused part of the ICs;
(iii) Retain a premium for diversity of gas supply and capping it;
(iv) Remove the diversity premium altogether.

Following publication of this July consultation paper the CER held a public workshop on 3rd August. The CER also met with and corresponded with the European Commission on these issues.

In February 2012 the CER published a proposed decision paper which proposed a forward looking Long Run Marginal Cost (LRMC) tariff methodology for dealing with all entry points (existing and new) to the Irish transmission system. The basic idea is to reward efficient new sources of gas while at the same time containing upward pressure on tariffs and recognising the crucial role the ICs play in securing Ireland’s long term energy supply requirements. A final decision is expected in mid 2012.
Task 6: Safety

This key task involved the following primary aims:

- Progress the design of the new (upstream) petroleum safety framework; and
- Fully implement and monitor the (downstream) gas and electrical safety framework.

Petroleum Safety Functions

Background

The Petroleum (Exploration and Extraction) Safety Act, 2010, (the “2010 Act”) passed on April 3rd 2010, confers upon the CER the role of safety regulator for designated petroleum activities. In essence this means that specific exploration and extraction activities carried out by petroleum undertakings/companies in Ireland will be regulated by the CER as regards safety.

In order to fulfil the role of safety regulator, the 2010 Act requires the CER to establish and implement a risk-based Petroleum Safety Framework. This work is being carried out in the Petroleum Safety Framework Implementation Project. The Petroleum Safety Framework will describe the system that will be used to regulate the safety of petroleum undertakings/companies.

The 2010 Act and the requirement to implement a risk based petroleum safety framework gives effect to a key recommendation of the report produced by Advantica following its safety review of the Corrib gas pipeline. The Advantica Report recommended that a new risk assessment-based safety framework with respect to gas pipelines, in line with best international practice, should be developed and implemented in Ireland.

The 2010 Act expands on this concept to provide that petroleum activities generally would be governed by the new Petroleum Safety Framework. The Petroleum Safety Framework will set out the scope of the petroleum activities and associated infrastructure that will be regulated by the CER. It is envisaged that the Framework will cover a wide range of activities, including well work (drilling, well testing etc.), production and decommissioning of petroleum infrastructure. It will also include the systems and procedures to be operated by the CER in regulating these activities and infrastructure, including:

- Permissioning System comprising the issuance of safety permits;
- Compliance Assurance System comprising audits, inspections, verification and performance reporting;
- Petroleum Incident Notification and Inspection; and
- Enforcement System, which is in accordance with the 2010 Act.

The Petroleum Safety Framework Implementation Project is necessary to ensure that all the provisions of the Petroleum (Exploration and Extraction) Safety Act, 2010, are implemented in a timely manner. The design and implementation of the Petroleum Safety Framework is a challenging and complex project that will take approximately 3-4 years to complete.

Petroleum Safety Framework

The key benefits that will be realised by the Petroleum Safety Framework Implementation Project are:

1. The State will have a risk based system for regulating designated petroleum activities with respect to safety that is in line with best international practice.
2. It will engender confidence and assurance amongst the general public and the industry that the safety regulation of designated petroleum activities protects the public and is in line with the public interest.
3. It will bring greater clarity and transparency to the regulation of petroleum activities with respect to safety in Ireland.

Whilst the emphasis in 2010 was to undertake the initial planning and scoping of the Petroleum Safety Framework Implementation Project, the CER began the High Level Design of the Petroleum Safety Framework in 2011. The Status Analysis Review of the Existing Legislative and Regulatory Regime for Petroleum Exploration and Extraction in Ireland, which was published in March 2011, provided an important touchstone for the high level design of the Petroleum Safety Framework.

In August 2011 the CER published a Consultation Paper on the High Level Design of the Petroleum Safety Framework. The consultation enabled the general public industry and other interested parties to provide input into the proposed High Level design of the Framework at an early stage. The paper received over 80 responses, mainly focusing on issues relating to the safety of hydraulic fracturing. The CER reviewed all responses and published a consultation response paper on the Consultation Paper on the High Level Design of the Petroleum Safety Framework, along with a Draft Decision Paper on the High Level Design of the Petroleum Safety Framework in February 2012.

The consultation period for the Draft Decision closed on 29th March 2012. The final Decision of the High Level Design of the Petroleum Safety Framework paper was published in June 2012 along with the Draft Decision Response Paper. The core focus of the Petroleum Safety Framework is to regulate petroleum...
undertakings in oil and gas through a risk-based system, in a manner that protects life. The key elements of the High Level Design of the Petroleum Safety Framework are as follows:

- The requirement for petroleum undertakings to submit safety cases to the CER for assessment;
- Petroleum undertakings will be prohibited from carrying out specified activities, including the drilling of wells or the production of oil/gas, without a safety permit from the CER;
- If the CER issues a safety permit, there will be an extensive CER monitoring system of the petroleum activities; and,
- The CER has extensive enforcement powers available to it which it will exercise to ensure compliance by petroleum undertakings with their safety obligations. The eventual action that may be exercised is criminal prosecution against a number of criminal offences, which can result in a fine of up to €3m or a term of imprisonment of up to 3 years.

With the Framework now decided upon, over the next 18 months the CER will develop and publically consult on a number of technical procedures and regulatory guidance documents that are necessary to fully implement this new Framework. This will be done in accordance with principles set out in the Decision Paper on the High Level Design of the Petroleum Safety Framework and the 2010 Act.

The CER expects the new regulatory Framework will begin operation before the end of 2013.

Safety Supervision Functions
The CER completed a number of work streams in 2011 in relation to its existing safety functions regarding gas installers and electrical contractors.

Performance Management and Compliance
Under the Energy (Miscellaneous Provisions) Act 2006, the CER was given responsibility for regulating the activities of natural gas installers and electrical contractors with respect to safety. In order to fulfill its functions the CER designated the Safety Supervisory Bodies (SSBs), i.e. the Electrical Contractors Safety and Standards Association (ECSSAI), Register of Electrical Contractors of Ireland (REC) and Register of Gas Installers of Ireland (RGII). The SSBs are responsible for carrying out the safety functions in respect of the Registered Electrical Contractor (REC) and Registered Gas Installer (RGI) schemes, on behalf of the CER.

The CER’s Safety Supervisory Criteria Documents set out the obligations and procedures to be followed by participants operating within the electrical and gas safety industries, including the SSBs. In order to provide assurance to the CER that the SSBs are fulfilling their obligations as envisaged under the relevant Criteria Document, the CER developed a Performance Management Framework document which involves the SSBs reporting against a series of safety metrics on a quarterly basis to the CER. Based on information contained in the Performance Management Reports, the CER has been able to identify trends across both the REC and RGI schemes.

The reports show that in 2011 there has been a continuation of the trends seen in 2010. This includes a small but continued decline in the number of Electrical Contractors registering with the electrical SSBs. The number of certificates sold by the electrical SSBs has also continued to drop; these certificates are required for completed electrical installation work. This trend can be attributed directly to the decline in new builds and the overall continued slump in the construction industry.

However, the Reports also show that the RGII scheme for gas installers has seen the number of parties registered to the scheme increase slightly in 2011; the year ended with a total of 2,843 Registered Gas Installers (RGIs), up 4% on the previous year’s total. The sale of certificates remained strong in 2011, with those relating to the servicing of gas appliances continuing to make up a significant proportion of those sold. The CER will continue to monitor developments in these areas throughout 2012, through the SSBs’ ongoing reporting under the Performance Management Framework.

Anecdotally the CER understands that there is a significant level of electrical work that is carried out by non competent parties and therefore remains uncertified. It is hoped that the launching of a new public safety awareness campaign - Safe Electric - and the progression of Restricted Works in 2011 (see later) will help create increased awareness amongst the general public and industry alike of the necessity to always hire a Registered Electrical Contractor for all major electrical work and to look for a certificate for completed work.

Restricted Electrical Works
Restricted Electrical Works under the 2006 Act are defined as electrical work that can only be carried out and certified by a REC. The scope of Restricted Electrical Works was publicly consulted upon in late April and May of 2011, and a proposed decision paper was issued by the CER in September 2011. A final decision paper was issued in March 2012 and it is anticipated that legislation giving effect to the decision will be drafted in the coming months. Once this step is completed, any party that is carrying out Restricted Electrical Works and is not
registered with an SSB will be committing an offence and may be liable on conviction to a fine or term of imprisonment.

This move is designed to enhance the safety of installations in domestic premises, where fire authority statistics indicate that electrical installation faults are the cause of at least 4 fires per week in Ireland.

In the final decision paper the CER proposed that Restricted Electrical Works will essentially encompass any electrical work in a domestic environment that would require a modification, replacement or addition to the main distribution board. Anyone wishing to carry out Restricted Electrical Works will be required to register as a Registered Electrical Contractor under the Safe Electric scheme. It is envisaged that the operation of Restricted Electrical Works will become effective in the latter half of 2012.

Safe Electric Campaign
The CER launched a new public awareness campaign in November 2011. It is aimed at increasing awareness of the “Safe Electric” brand and to encourage people to only use a Registered Electrical Contractor for electrical works in their homes or businesses. An example of the advertisements used as part of this campaign is shown below.

A similar advertising campaign was run by the CER in January 2011 to encourage and remind people to use a Registered Gas Installer for works carried out on gas or LPG installations.

Extension of RGI Scheme to include LPG
The Energy (Biofuel Obligations and Miscellaneous Provisions) Act, 2010, extended the CER’s functions to include the regulation of Liquefied Petroleum Gas (LPG) installers with respect to safety. In June 2011 the CER implemented the new safety law to extend the CER’s Registered Gas Installer (RGI) scheme to include the activities of LPG installers. The new law means it is now an offence for any person to carry out domestic gas works on LPG appliances/installations unless they are registered as an RGI with the Register of Gas Installers of Ireland (RGII).

RGIs must hold suitable qualifications, carry out gas work in line with the Irish standards and undergo regular audit and inspection by the RGII. Domestic LPG gas works covered by the new regime include the installation, repair, servicing, maintenance or replacement of a domestic LPG fitting (excluding portable equipment). It is anticipated that the extension of the RGII scheme to include LPG installers will reduce the level of LPG safety-related incidents in Ireland, and help protect lives and property. In time the scheme may be further extended to include commercial gas installers.

In 2012 the CER’s gas safety regulatory role will be further extended to include the regulation of LPG distribution networks, along with the mandatory reporting of LPG safety incidents by LPG undertakings to the CER for investigation. Under new legislation, the CER will gain new enforcement powers to act against both gas and LPG installers and undertakings when necessary. The LPG distribution networks refer to the approximately 300 sites where multiple customers are supplied LPG from a single LPG tank. It is estimated that approximately 8,000 customer are supplied LPG in this way. LPG incident reporting refers to any incident in a setting where LPG is involved, be it through a LPG cylinder, an individual LPG tank or supplied through a LPG distribution network.

Gas Safety Framework
The Energy (Miscellaneous Provisions) Act 2006 gives the CER specific functions for the regulation of natural gas undertakings and gas installers with respect to safety. In 2007, the CER published a decision paper entitled “A Natural Gas Safety Regulatory Framework for Ireland”. The CER is required in carrying out functions and exercising its duties, to have regard to the need:

- To promote competition in the supply of natural gas;
- To promote safety and efficiency on the part of the natural gas undertakings
- To ensure that there is sufficient capacity in the natural gas system to enable reasonable expectations of demand to be met; and,
- To secure the continuity, security and quality of supply of natural gas.

A number of key objectives were addressed under this Framework in 2011, which is the third year since its initiation.

There was 1 reportable natural gas incident in June 2011 where an explosion occurred at a city centre apartment following third party interference with the customer’s gas installation. Three further “non-reportable” incidents were also investigated. These included a fault causing a gas release on a pressure regulating device, an evacuation of offices following a third party damage incident and the activation of a carbon monoxide alarm following an electricity cable failure.

Significant programmes of work were also carried out by Bord Gáis Networks to promote Carbon Monoxide Alarms with Registered Gas Installers. These programmes are continuing into 2012; there will be ongoing media campaigns highlighting the dangers of Carbon Monoxide during the year and a Carbon Monoxide Awareness Week is scheduled for September 2012. Campaigns were also run to highlight gas escapes, “Dial Before You Dig”, and the RGI programme during 2011, and these will be continued into 2012.

As part of the overall Framework, three year audit and inspection programmes were drawn up, with a variable number of audits and inspections every year based upon risk levels
and findings. 2011 was the final year of the first three year cycle, and the programme was fully implemented during the year. Audits of shippers and suppliers were carried out for the first time in 2011, and will be repeated yearly. The first technical inspections of the Transmission System Operator were also carried out, with a focus on the Interconnector sites and key transmission installations around the country. The inspection programme seeks to monitor technical and safety performance to provide corroborative data to confirm that audits and Key Performance Indicators (KPIs) are reporting consistent data. A number of areas of improvement have already been identified and risk rated for remedial action. Along with this, process audits were also carried out on both the Transmission and Distribution System Operators and focused on the areas of permits to work, emergency response and competency management.

These audits and inspections will continue, with a new three year programme being initiated in 2012. The CER has also continued to monitor the performance of key industry players through a developing set of requirements for KPI reporting.
Task 7: Monitor Gate 3 Connection Offers & Review Uptake of Gate 3

This key task involved the following primary aims:

- All remaining Gate 3 connection offers to issue by end July 2011;
- Issuance of final constraint reports by the System Operators to Gate 3 projects following finalisation by the SEM Committee of its policy with regard to Scheduling & Dispatch in the SEM;
- The Gate 3 Liaison Group to continue to operate successfully throughout 2011 as an effective information exchange between the CER, the SOs and the representatives of Gate 3 developers;
- The CER will continue to monitor the roll-out of Gate 3 offers;
- Publication of the CER’s decision on COPP (Connection Offer Policy Principles), which will outline a number of rulesets related to connection policy;
- An indication of the uptake of offers in Gate 3 to be determined by the System Operators towards the end 2011;
- Once the uptake of offers in Gate 3 is known, the CER can then consider appropriate next steps.

Background

The increased connection of renewable generators of recent years, especially wind farms, means that about 20% of Ireland’s electricity consumption now comes from renewable sources. The increase in renewable connections to the electricity network is shown below - the extra wind farms help provide some hedge to Ireland against the higher wholesale fuel costs, given that their energy is almost free when the wind blows.

Renewable Connection, Ireland, 2004 to 2011

The Government has set a national target for Ireland to achieve 40% of electricity consumption from renewable sources by 2020. The CER is responsible for developing generator connection policy in Ireland. On foot of the Government’s targets and following public consultation, the CER published its decision on Gate 3 renewable generator connections in December 2008. Gate 3 is essentially the third round of connection offers for renewable generators such as wind-farms, processed under a system known as the Group Processing Approach. The Gate 3 renewables direction allowed for the issuance of connection offers by the System Operators to over 150 new renewable projects, with a combined capacity of about 4,000 MW. In addition to new renewable connections, the CER also published a direction to the System Operators on new non-renewable (conventional) generators offers which will be processed as part of Gate 3. This direction was published in December 2010.

Since then, the CER has been working with the electricity industry and the System Operators to ensure that Gate 3 offers roll out in accordance with the agreed offer issuance schedule and that Gate 3 parties remain fully up to date with the Gate 3 programme. The underlying aim of the CER’s efforts in this area remains the achievement of Ireland’s renewable targets by 2020 in the most efficient and cost effective manner possible. Gate 3 involves the connection of an unprecedented level of renewable generation in Ireland. The programme involves the issuance of around 3,200 MW of capacity to on-shore wind projects, with a further almost 800 MW of capacity to off-shore wind projects.

If all of these Gate 3 projects develop through to connection to the electricity system, on top of Gate 1 and 2 renewable generators, Ireland will have approx. 6,000 MW of mainly intermittent wind power. The location of the Gate 3 renewable projects is shown below, along with Gate 1 and 2.

To allow for the connection of all of these new renewable projects, the CER has sanctioned more than a billion euro investment in the electricity transmission system over the years 2011 to 2015. This includes the construction of new
transmission capacity as well as the upgrading of existing capacity to allow these renewable projects to export their power. Delivery of this new infrastructure by the System Operators will be a key component of the success of Gate 3 and achievement of Ireland’s renewable targets.

**Achievements in 2011**

As referred to above, already about 20% of our electricity consumption comes from renewable sources - mostly wind farms - one of the highest levels in the EU, and this has been facilitated by the connection of Gate 1 and Gate 2 renewable generators in recent years.

The CER continued to monitor the roll-out of Gate 3 connection offers by the System Operators in 2011, in line with the agreed offer issuance programme. All offers were issued to Gate 3 parties by 12th August 2011. Generators have already begun accepting their offers with just over 1,200 MW accepted as of Quarter 1 2012.

It is expected the majority of generators will start to accept offers in 2013 post completion of the SEM Committee review of Tie Breaks in Dispatch and the issuance of EirGrid’s constraints reports. For information on scheduling and dispatch and the related issue of the treatment of “tie-breaks” in dispatch, please see key task 4 on the SEM earlier in this report. The CER is also overseeing the “DS3” programme of work by the TSOs to help meet the 40% renewable target, as detailed in key task.

To ensure all Gate 3 generators remain fully up to date with the roll-out of Gate 3 the CER facilitates the Gate 3 Liaison Group. The Liaison Group continues to deal with a large volume of Gate 3 issues and is working effectively as a communications forum and information exchange between the CER, the System Operators and the electricity industry. The Liaison Group, with the completion of the offer programme, has also started to focus on post offer issuance matters. This will become more significant in 2012 as more Gate 3 generators accept their offers and move their projects forward towards construction. As the take-up of Gate 3 becomes clearer the CER will initiate considerations of the appropriate next steps in connection policy.

In May 2011 the CER published a decision paper - Connection Offer Policy & Process (COPP) – the paper details the procedures and process the system operators undergo when processing offers (and offer modification requests) for generator connections to the electricity network. The decision intended to offer further clarity, transparency and flexibility to the current system for processing offers – among other topics discussed are the issues of temporary connections, installed capacity and reductions in maximum export capacity (MEC).

Also in May 2011 the CER published a decision on “First Stage Payments” on acceptance of a connection offer to the electricity networks. Developers are required to pay a project specific “First Stage Payment” when they accept their offer, broadly to cover the pre-construction costs incurred by the System Operator in developing the connection. The CER’s decision paper introduced a “sliding scale” mechanism for first stage payments to take account of concerns of developers who may not be connecting for a number of years.

Later in October 2011 the CER published a decision paper on Financing of the System Operator preferred connection method in contestable builds. This paper outlined a mechanism by which contestable developers who are required to “over-build” their connection for future system needs, can receive a set of stage payments from the System Operators as the connection is built out.
Task 8: Input to EU Framework Guidelines & Implement “Third Package” requirements in electricity/gas

The key task involved the following primary aims:

- Certification of TSO/ISO in line with requirements of Third Package; and,
- In conjunction with our colleagues in CEER and ACER:
  - Finalisation of Framework Guidelines on capacity allocation and congestion management in both electricity and gas;
  - Finalisation of Framework Guidelines on electricity grid connection;
  - Development of framework guideline on operational security in electricity;
  - Development of framework guideline on electricity and gas balancing;
  - Public consultation (CEER) on assessment of the necessary inter-TSO compensation mechanism for cross border trades in electricity compensation.

Background

In order to facilitate the creation of an internal European energy market, the European Commission’s “Third Package” (which refers to a package of EU legislation on European electricity and gas markets that entered into force on the 3rd September 2009), imposed obligations on Member States with respect to “network unbundling”, and developing harmonised network codes. Consequently, a key focus for the CER during 2011 was to provide input into EU Framework Guidelines, which feed through to EU-wide Network Codes, and ensure compliance with Third Package requirements.

In relation to energy networks, the third package outlines requirements in relation to the independence and “unbundling” of transmission system operators (TSOs). Unbundling is understood to refer to the level of separation of the TSO from interests relating to the generation and/ or supply activities. This means that ownership or control over the activities of the TSO must be independent from ownership or control over generation or supply companies operating in that Member State and using the transmission system. TSOs have an important role to play in the electricity sector as the networks which they operate are monopoly functions.

The “Third Package” requires that the national regulatory authority in each member state certifies their TSO as being in compliance with the unbundling requirements of the Directive - the CER will carry out this certification requirement in 2012.

2011 was a year of transition for the European energy regulators in cooperation with the newly established ACER, the Association for the Cooperation of European Energy Regulators. In building up ACER, the European energy regulators will continue their voluntary cooperation on energy issues through the Council of European Energy Regulators (CEER) and will provide input to the European Commission and ACER, not only on institutional, practical and organisational challenges but also on the further work on framework guidelines. The Framework Guidelines set the scope for EU-wide Network Codes in 12 different areas. The CER is active in this European network and has played its role in advancing Ireland’s interests in the preparation of framework guidelines in electricity so far. These framework guidelines, published throughout 2011, provide the basis on which the European Transmission System Operators body (ENTSO-E) are now required to prepare the detailed network codes. The CER will continue to actively engage with ACER, ENTSO-E and the European Commission as the drafting of the Network Codes progresses.

Unbundling and Certification for Third Package

Gas

In 2010 the Department for Communications, Energy and Natural Resources advised the CER that BGE would adopt the “Independent Transmission Operator (ITO) model” for network unbundling to ensure compliance with the Third Package. Essentially, the ITO model will amalgamate Gaslink and Bord Gais Networks, to form a new independent subsidiary of BGE, which will have its own Board and Supervisory Body. A key function of the CER is to review BGE’s application regarding the establishment of the ITO, to ensure that BGE’s application for ITO certification is in compliance with the Third Package. Following a review of BGE’s application, and the receipt of opinions from the European Commission, the CER will be required to certify whether BGE is ITO compliant.

In order to progress the implementation of the ITO model, the CER had significant interaction with BGE, in terms of reviewing their proposals to enable BGE’s compliance with the relevant articles under Directive 2009/73/EC. Specifically, during 2011 the CER reviewed BGE’s proposals in terms of:

- the separation of assets, equipment and staff;
- brand development;
- ensuring the independence of staff within the proposed ITO;
- establishment of a Supervisory Body;
- appointment of a Compliance Officer;
- development of a Compliance Programme; and
- development of a Ten Year Network Development Plan.
While awaiting BGE’s formal application for ITO certification, the CER also commenced work on reviewing the TSO and Transmission Asset Owner (TAO) licences for gas, to ensure that the licences, when finalised, are consistent with the requirements of SI 630 – European Communities (Internal Market in Natural Gas & Electricity) Regulations 2011.

Whilst significant work has been undertaking during 2011 in terms of progressing the ITO model for gas, the CER is aware that the potential sale of BGE’s assets (excluding gas transmission and distribution pipelines), could result in a change from an ITO Model of Unbundling to a Full Ownership Unbundling Model for BGE. The CER will continue to monitor this development closely in 2012, given the potential impact that it may have on the timelines for compliance with the Third Package.

Electricity
In late 2011 the Department of Communications, Energy and Natural Resources published Statutory Instrument 570 of 2011, requiring the relevant electricity transmission licence to apply to the CER for certification of the Transmission System Operator (TSO) as required under Directive 2009/72/EC. Following the Government’s decision in mid 2011 to maintain the electricity transmission assets within ESB Group, it is expected that ESB will make an application for certification of the Irish split-model transmission arrangements under Article 9,9 of the Directive.

Subsequent to the publication of SI 570 of 2011, the SEM Committee (see key task 4) decided that TSO Certification in Ireland was a SEM matter. This follows an earlier decision by the SEM Committee that certification in Northern Ireland is a SEM matter. This means that the SEM Committee will consider applications for TSO Certification received by CER or Utility Regulator. The Guidelines for TSO Certification in Ireland will be published in 2012.

Framework Guidelines and Network Codes in Gas
The EU’s Third Package contains provisions regarding the establishment of harmonised access conditions to natural gas transmission systems to ensure the proper functioning of the internal market in gas. Central to these provisions is the development of EU-wide Network Codes in 12 topic areas which will apply to gas interconnection points throughout Europe. These topic areas include harmonised principles for tariffs, capacity allocation, congestion management, transparency requirements and balancing.

These EU-wide Network Codes for gas will be drafted by the European Networks of Transmission System Operators for Gas (ENTSOG) in line with the Framework Guidelines set out by ACER. ACER also has a role in reviewing the draft Network Codes, including their compliance with the Framework Guidelines.

In 2011 the European Regulators progressed the development of the Framework Guidelines for Capacity Allocation Mechanism (CAM) and Balancing and also the Congestion Management Procedures, each of which will present significant change to the Irish gas market. The CER provided important input into the development of the Framework Guidelines, and subsequent CAM Network Code which involved assessing the implications to the Irish market. The CER and Gaslink, the Irish TSO, also provided regulator updates on these European developments to industry through industry fora, and closely worked with the Department of Communications, Energy and Natural Resources.

The next Network Codes to be developed in 2012 relate to Balancing, Tariffs, Interoperability and the CER, in conjunction with Gaslink, will contribute to the progress of these Codes and represent the needs of the Irish gas market at a European level.

For information on Framework Guidelines in electricity, please see key task 4 on SEM. CEER work on assessment on the Inter-TSO compensation mechanism for cross border trades in electricity did not commence in 2011 but is expected to start later in 2012.

REMIT
REMIT, the new EU “Regulation on Energy Market Integrity and Transparency”, entered EU law on 28th December 2011 and introduces new EU-wide market rules and market monitoring in energy. REMIT’s scope includes wholesale electricity and natural gas contracts for production, trade, transportation, and supply/distribution to customers with a consumption of 600 GWh per annum or higher.

REMIT provides for market abuse prohibition rules across the EU and will also establish a new registration, reporting and monitoring regime for energy transactions, with certain energy transaction data across the EU to be sent to ACER in Ljubljana. A public workshop on the implications of REMIT was organised by the CER and Utility Regulator in March 2012. The CER will continue to keep market participants updated on this issue and will be expressing its views on the proposed energy transaction registration/reporting system at ACER/CEER meetings. This is to press for a system which captures suspected cases of market abuse but which is also not administratively burdensome or costly for market participants.
Key Performance Indicators

The Government Statement on Economic Regulation, published by the Department of the Taoiseach in October 2009, aimed at strengthening the process of assessing the performance of regulators across key economic sectors. This included a requirement that the performance of regulators be measured annually against clear indicators, and reported on in the Annual Report.

In line with this, the CER agreed “Key Performance Indicators” (KPIs) for 2011 with the Department of Communications, Energy and Natural Resources. The KPIs were selected to be specific and measurable and are related to the CER’s “8 key tasks” for 2011, described earlier in this Report. The outcomes against these KPIs are shown in the tables below. The CER may extend/modify these KPIs for the future. This is with a view to achieving best regulatory practice in assessing the CER’s regulatory performance.

Please note that these KPIs show specific factual outcomes against particular measurables - the “8 key tasks”, discussed earlier, provide general information on how the CER performed in its most strategic tasks for 2011, which in turn helped the CER to achieve its overall mission.

### Key Performance Indicators

#### KEY TASKS - RETAIL

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<thead>
<tr>
<th>Issue</th>
<th>KPI</th>
</tr>
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<tbody>
<tr>
<td>In monitoring competition in the retail electricity and gas markets, one of the issues for the CER is customer switching rates between suppliers.</td>
<td>Total number of electricity customers who switched energy supplier: 454,964 in 2009, 468,178 in 2010 and 338,179 in 2011. Total number of gas customers who switched energy supplier: 93,937 in 2010 and 113,280 in 2011. Number of electricity and gas customers who switched supplier in 2009, 2010 and 2011 by customer type – see below.</td>
</tr>
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#### CUSTOMER SWITCHES - ELECTRICITY

<table>
<thead>
<tr>
<th>Type</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Domestic</td>
<td>410,470</td>
<td>431,409</td>
<td>306,295</td>
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<tr>
<td>Small Business</td>
<td>39,021</td>
<td>33,455</td>
<td>29,597</td>
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<tr>
<td>Medium Business</td>
<td>5,206</td>
<td>3,028</td>
<td>2,072</td>
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<tr>
<td>LEU</td>
<td>267</td>
<td>286</td>
<td>215</td>
</tr>
<tr>
<td>Total Switches</td>
<td>454,964</td>
<td>468,178</td>
<td>338,179</td>
</tr>
</tbody>
</table>

#### CUSTOMER SWITCHES - GAS

<table>
<thead>
<tr>
<th>Type</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>90,036</td>
<td>108,938</td>
</tr>
<tr>
<td>Industrial/Commercial</td>
<td>3,901</td>
<td>4,342</td>
</tr>
<tr>
<td>Total Switches</td>
<td>93,937</td>
<td>113,280</td>
</tr>
</tbody>
</table>
### KEY TASKS - SAFETY

<table>
<thead>
<tr>
<th>Issue</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulation of electrical contractors and gas installers in Ireland with respect to safety.</td>
<td>At the end of 2011 there were 2,797 Registered Gas Installers (RGIs) registered with the gas safety supervisory body (RGII) and 4,264 Registered Electrical Contractors (RECs) registered with the electrical safety supervisory bodies.</td>
</tr>
<tr>
<td>Natural Gas Safety Framework Performance.</td>
<td>There was 1 reportable natural gas incident in 2011 compared with 3 reportable incidents in 2010. The incident was categorized as Type B which involved the hospitalization of 1 individual.</td>
</tr>
</tbody>
</table>

### KEY TASKS - SMART METERING

<table>
<thead>
<tr>
<th>Issue</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete customer behaviour trials and cost benefit analysis (CBA) for electricity smart metering</td>
<td>Published Electricity trials findings reports and CBA in May 2011.</td>
</tr>
<tr>
<td>Complete customer behaviour trials and cost benefit analysis (CBA) for gas smart metering</td>
<td>Published gas trials findings reports and CBA in October 2011.</td>
</tr>
<tr>
<td>Decision on full rollout of smart metering</td>
<td>Consultation on Proposed National Smart Metering Rollout completed in December 2011 – Decision due in 2012.</td>
</tr>
</tbody>
</table>

### KEY TASKS - SMART METERING

<table>
<thead>
<tr>
<th>Issue</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>To continue to provide a high quality efficient, complaints resolution service for domestic and small business customers.</td>
<td>Number of customer complaints to CER regarding suppliers/network operators in 2011 was 2,770, compared to circa 1,930 in 2010.</td>
</tr>
<tr>
<td>To monitor customer usage and awareness of the energycustomers.ie service.</td>
<td>Overall customer contacts (“hits”) for <a href="http://www.energycustomers.ie">www.energycustomers.ie</a> was 18,497 in 2011, compared to 16,881 in 2010.</td>
</tr>
</tbody>
</table>

### KEY TASKS - ENVIRONMENTAL / RENEWABLES

<table>
<thead>
<tr>
<th>Issue</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>To continue to host regular Gate 3 Liaison Group meetings with the renewable industry and system operators. These meetings primarily monitor the roll-out of Gate 3 offers, which are the key means to achieve the 40% renewables target for 2020.</td>
<td>Eight Gate 3 Liaison Group meetings were held during 2011. Gate 3 offer and process updates were published on CER website after each meeting.</td>
</tr>
<tr>
<td>To increase the amount of renewable electricity generation in Ireland, moving towards the 40% target for 2020.</td>
<td>Percentage of Ireland’s electricity consumption coming from renewable generation in 2011 was 19.6%, up significantly from 13.3% in 2010. 1879.9 MW of renewable generation was connected to the electricity networks at end 2011 up from 1689.7 MW at end 2010.</td>
</tr>
</tbody>
</table>
Financial Statements

COMMISSION FOR ENERGY REGULATION
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2011

Commission Members
Michael G. Tutty, Chairperson (Retired May 2011)
Dermot Nolan, Chairperson
Garrett Blaney, Commissioner

Bank
Allied Irish Bank,
7/12 Dame Street,
Dublin 2
Ireland

Solicitor
Kilocs Solicitors,
69 Lower Leeson Street,
Dublin 2,
Ireland

CER Address
Commission for Energy Regulation
The Exchange
Belgard Square North
Tallaght
Dublin 24
Ireland

Auditors
The Office of the Comptroller and Auditor General,
Treasury Block,
Dublin Castle,
Dublin 2,
Ireland

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Report of the Commission 45
Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas 47
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Statement of Accounting Policies 50
Income and Expenditure Account 51
Statement of Total Recognised Gains and Losses 52
Balance Sheet 53
Cash Flow Statement 54
Notes to the Financial Statements 55
Report of the Commission
FOR THE YEAR ENDED 31 DECEMBER 2011
I have pleasure in presenting the audited financial statements of the Commission for Energy Regulation for the year ended 31 December 2011.

Financial Year
The accounting period consists of twelve months to 31 December 2011.

Principal Activities
The European Electricity Directive was implemented by Ireland with the passing of the Electricity Regulation Act, 1999, which established the Commission for Electricity Regulation (CER) on 14 July 1999. This legislation and the signing of Statutory Instrument 445 of 2000 sets out the powers and duties of the CER and provides the framework for the introduction of competition in the generation and supply of electricity in Ireland. The Gas (Interim) (Regulation) Act 2002 established the CER as the Irish natural gas regulator under the name of the Commission for Energy Regulation. It gave the CER the necessary powers to license and regulate the transmission, distribution, storage and supply of natural gas and issue orders in relation to the supply, transmission, distribution and sale of gas. The Energy (Miscellaneous Provisions) Act 2006 sets out the powers and duties with respect to public safety involving the regulation of transmission, distribution, storage, supply and shipping of natural gas; and the safety supervision of Registered Gas Installers and Registered Electrical Contractors. The Electricity Regulation Act (1999) has been amended by the Petroleum (Exploration and Extraction) Safety Act 2010 (the Safety Act) which sets out the powers and duties of the CER in this regard.

The Commission is funded by levy and licence income received from the relevant industry participants. Pending designation of petroleum activities and development of safety framework for levy purposes, the CER have secured a short term commercial loan facility to fund petroleum safety activities, as consented to by Ministerial approval. The CER will publish its decision on the High Level Design of the Petroleum Safety Framework in 2012. The CER will subsequently set out its decisions on how it will levy the petroleum industry before the end of 2012. Once the Petroleum Safety Framework is substantially implemented in 2013, the Commission will be in a position to levy petroleum undertakings for all project implementation costs incurred to date as well as ongoing operational costs for the Framework.

Results
Details of the financial results of the Commission for the year are set out in the Financial Statements and in the related notes.

Auditors and Accounts
Paragraph 25 of the Schedule to the Electricity Regulation Act, 1999 as amended by the Gas (Interim) (Regulation) Act 2002 requires the Commission to prepare financial statements in such form as may be approved by the Minister for Communications, Energy and Natural Resources with the concurrence of the Minister for Finance. The Commission submits accounts in respect of each year to the Comptroller and Auditor General. As soon as may be subsequent to the audit the Commission is required to present to the Minister for Communications, Energy and Natural Resources a copy of such accounts together with the audit report of the Comptroller and Auditor General.

Audit Committee
The Audit Committee members at the end of December, 2011 were Mr. Tom O’Higgins (Chairperson – external), Commissioner Garrett Blaney, Dr. Paul McGowan and Mr. Tom Mason (external). Mr. Michael Guilfoyle (external) completed his term of appointment as Chairperson in September and was replaced by Mr Tom O’Higgins. The Committee’s main functions are to advise on how the Commission is managing key financial and operational risks, to evaluate the effectiveness of internal financial controls, to appraise value for money issues and to monitor implementation of Commission decisions arising from Audit Committee recommendations.

During 2011, the Audit Committee met on six occasions and carried out the following functions:
• The Committee reviewed and approved for submission to the Commission Internal Audit Reports on Information Technology, Customer Complaints, Fixed Assets, Carbon Revenue Levy, Risk Management together with Internal Audit’s Annual Report for 2010/11;
• The Committee monitored policy and practice enhancement work by the Commission in relation to IT;
• The Committee liaised regularly with management in relation to the conduct of risk management and mitigation work within the Commission; and
• The Committee and the Commission appointed new Internal Auditors and approved the work program for Year I as outlined in the three-year strategic internal audit plan developed for the CER.

Demot Nolan
On behalf of the Commission
I have audited the financial statements of the Commission for Energy Regulation for the year ended 31 December 2011 under the Electricity Regulation Act, 1999 as amended by the Gas (Interim) (Regulation) Act, 2002. The financial statements, which have been prepared under the accounting policies set out therein, comprise the Statement of Accounting Policies, the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and Generally Accepted Accounting Practice in Ireland.

Responsibilities of the Commission
The Commission is responsible for the preparation of the financial statements, for ensuring that they give a true and fair view of the state of the Commission's affairs and of its income and expenditure, and for ensuring the regularity of transactions.

Responsibilities of the Comptroller and Auditor General
My responsibility is to audit the financial statements in accordance with applicable law.

My audit is conducted by reference to the special considerations which attach to State bodies in relation to their management and operation. My audit is carried out in accordance with the International Standards on Auditing (UK and Ireland) and in compliance with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of Audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements, sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Commission’s circumstances, and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made in the preparation of the financial statements, and
- the overall presentation of the financial statements.

I also seek to obtain evidence about the regularity of financial transactions in the course of the audit. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on the Financial Statements
In my opinion, the financial statements, which have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland, give a true and fair view of the state of the Commission’s affairs at 31 December 2011 and of its income and expenditure for the year then ended.

In my opinion, proper books of account have been kept by the Commission. The financial statements are in agreement with the books of account.

Matters on which I Report by Exception
I report by exception if:

- I have not received all the information and explanations I required for my audit, or
- my audit noted any material instance where moneys have not been applied for the purposes intended or where the transactions did not conform to the authorities governing them, or
- the information given in Commission’s Annual Report for the year for which the financial statements are prepared is not consistent with the financial statements, or
- the Statement on Internal Financial Control does not reflect the Commission's compliance with the Code of Practice for the Governance of State Bodies, or
- I find there are other material matters relating to the manner in which public business has been conducted.

I have nothing to report in regard to these matter upon which reporting is by exception.

Andrew Harkness
For and on behalf of the Comptroller and Auditor General

23 May 2012
Statement Of Members’ Responsibilities

Paragraph 25 of the Schedule to the Electricity Regulation Act, 1999 as amended by Section 22 of the Gas (Interim) (Regulation) Act, 2002 requires the Commission to prepare financial statements in such form as may be approved by the Minister for Communications, Energy and Natural Resources with the concurrence of the Minister for Finance and to submit them for audit to the Comptroller and Auditor General.

In preparing these financial statements, the Commission is required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- prepare the financial statements on the going concern basis, unless that basis is inappropriate
- disclose and explain any material departures from applicable accounting standards.

The Commission is responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the Commission and which enable it to ensure that the financial statements comply with Section 22 of the Gas (Interim) (Regulation) Act, 2002. The Commission is also responsible for safeguarding its assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Demot Nolan
On behalf of the Commission
Statement on Internal Financial Control

On behalf of the Commission for Energy Regulation I acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated.

The system can only provide reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period.

The Commission has taken steps to ensure an appropriate control environment is in place by:

- Clearly defining management responsibilities and powers
- Establishing formal procedures for monitoring the activities and safeguarding the assets of the organisation
- Developing a culture of accountability across all levels of the organisation.

The Commission has established processes to identify and evaluate business risks by:

- Identifying the nature, extent and financial implication of risks facing the body including the extent and categories which it regards as acceptable;
- Assessing the likelihood of identified risks occurring;
- Working closely with Government and various Agencies to ensure that there is a clear understanding of the Commission’s goals and support for the Commission’s strategies to achieve those goals.

The system of internal financial control is based on a framework of regular management information, administration procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- A comprehensive budgeting system with an annual budget which is reviewed and agreed by the Members of the Commission;
- Regular reviews by the Commission of periodic and annual financial reports which indicate financial performance against forecasts;
- Setting targets to measure financial and other performance;
- Formal project management disciplines.

The Commission has an internal audit function, which operates in accordance with the Framework Codes of Best Practice set out in the Code of Practice on the Governance of State Bodies. The work of internal audit is informed by analysis of the risks to which the body is exposed, and annual internal audit plans are based on this analysis. The analysis of risk and the internal audit plans are endorsed by the Audit Committee and approved by the Commission. At least annually, the Internal Auditor provides the Commission with a report of internal audit activity. The report includes the Internal Auditor’s opinion on the adequacy and effectiveness of the system of internal financial control. The Commission’s monitoring and review of the effectiveness of the system of internal financial control is informed by the work of the internal auditor, the audit committee which oversees the work of the internal auditor, the executive managers within the Commission who have responsibility for the development and maintenance of the financial control framework, and comments made by the Comptroller and Auditor General in his management letter.

A review of the effectiveness of the system of internal financial controls was carried out in 2011.

On behalf of the Commission

Dermot Nolan
Chairperson
Statement of Accounting Policies

1. Basis of Accounts
The financial statements are prepared under the accruals method of accounting, except as indicated below, and in accordance with generally accepted accounting principles under the historical cost convention. Financial Reporting Standards recommended by the recognised accountancy bodies are adopted, as they become operative.

2. Income Recognition
Electricity and Gas levy income is brought to account over the period to which it relates. Licence income from authorisations to construct, generate and supply is brought to account in the year in which the licence is issued.

3. Fixed Assets and Depreciation
Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated in order to write off fixed assets on a straight-line basis over their estimated useful lives at the following rates:
- Fixtures and Fittings 15%
- Office Equipment 15%
- Computer Hardware 33 1/3%
- Computer Software 50%
- Leasehold Improvement 4%

4. Foreign Currencies
Transactions denominated in foreign currencies relating to revenues and costs are translated into Euro at the rates of exchange ruling on the dates on which the transactions occurred.

5. Pensions
A defined-benefit pension scheme is in place for all employees of the Commission for Energy Regulation. The scheme is funded by contributions from the Commission and employees, which are transferred to a separate trustee administered fund.

6. Taxation
The Commission is not liable for Corporation Tax. Provision is made for taxation on deposit interest received. Income raised by the Commission is not subject to VAT.

7. Capital Account
The capital account represents the unamortised value of income used for capital purposes.

8. Allocation of costs
In the discharge of the Commission’s functions under section 20 of the Petroleum (Exploration and Extraction) Safety Act 2010, the financial statements identify separately all elements of cost and revenue in regard to the electricity, gas and petroleum sectors.

9. Commercial Loan Facility
Interest-bearing commercial loans are initially recognised net of arrangement fees. These arrangement fees are amortised over the life time of the loan facility. Accrued finance costs to the extent that they are payable, are included in accruals rather than in the carrying amount of debt.
## INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

### INCOME

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy</td>
<td>2</td>
<td>6,240,247</td>
<td>2,804,328</td>
<td>0</td>
<td>9,044,575</td>
<td>8,286,610</td>
</tr>
<tr>
<td>Licensing Fees</td>
<td></td>
<td>22,437</td>
<td>0</td>
<td>0</td>
<td>22,437</td>
<td>26,548</td>
</tr>
<tr>
<td>Other Income</td>
<td>2</td>
<td>12,757</td>
<td>7,789</td>
<td>0</td>
<td>20,546</td>
<td>9,137</td>
</tr>
</tbody>
</table>

### GROSS INCOME

- Levy: 9,044,575
- Licensing Fees: 22,437
- Other Income: 20,546

**Gross Income:** 9,288,563

### NET INCOME

- Levy: 9,044,575
- Licensing Fees: 22,437
- Other Income: 20,546

**Net Income:** 9,288,563

### EXPENDITURE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Wages &amp; Salaries</td>
<td>3</td>
<td>3,138,646</td>
<td>1,559,020</td>
<td>317,302</td>
<td>5,014,968</td>
<td>4,913,835</td>
</tr>
<tr>
<td>Pension Costs</td>
<td>9 (a)</td>
<td>319,919</td>
<td>159,929</td>
<td>30,152</td>
<td>510,000</td>
<td>703,000</td>
</tr>
<tr>
<td>Recruitment and Training</td>
<td></td>
<td>30,089</td>
<td>38,100</td>
<td>4,306</td>
<td>72,495</td>
<td>140,925</td>
</tr>
<tr>
<td>Travel &amp; Subsistence</td>
<td></td>
<td>71,679</td>
<td>35,465</td>
<td>15,234</td>
<td>122,378</td>
<td>128,844</td>
</tr>
<tr>
<td>Office Accommodation Expenses</td>
<td></td>
<td>535,637</td>
<td>261,506</td>
<td>40,084</td>
<td>837,227</td>
<td>847,924</td>
</tr>
<tr>
<td>IT &amp; Communications</td>
<td></td>
<td>226,101</td>
<td>89,373</td>
<td>9,099</td>
<td>324,573</td>
<td>320,762</td>
</tr>
<tr>
<td>Office Service Costs</td>
<td></td>
<td>14,969</td>
<td>10,742</td>
<td>8,034</td>
<td>33,745</td>
<td>28,850</td>
</tr>
<tr>
<td>Insurance Premiums</td>
<td></td>
<td>37,417</td>
<td>18,425</td>
<td>2,798</td>
<td>58,640</td>
<td>50,777</td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
<td>55,392</td>
<td>50,278</td>
<td>9,458</td>
<td>115,128</td>
<td>229,160</td>
</tr>
<tr>
<td>Professional &amp; Consultancy Fees</td>
<td>4</td>
<td>916,060</td>
<td>732,902</td>
<td>645,043</td>
<td>2,294,005</td>
<td>2,050,261</td>
</tr>
<tr>
<td>SEM Committee Fees</td>
<td>(25,617)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(25,617)</td>
<td>108,134</td>
</tr>
<tr>
<td>Audit fees</td>
<td></td>
<td>7,616</td>
<td>4,343</td>
<td>449</td>
<td>12,408</td>
<td>12,408</td>
</tr>
<tr>
<td>Internal Audit fees</td>
<td></td>
<td>13,909</td>
<td>8,218</td>
<td>1,898</td>
<td>24,205</td>
<td>22,112</td>
</tr>
<tr>
<td>Other Expenses</td>
<td></td>
<td>45,839</td>
<td>21,202</td>
<td>2,316</td>
<td>69,357</td>
<td>81,370</td>
</tr>
<tr>
<td>Interest Payable</td>
<td>0</td>
<td>0</td>
<td>33,307</td>
<td>33,307</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>185,232</td>
<td>73,723</td>
<td>0</td>
<td>258,955</td>
<td>287,092</td>
</tr>
<tr>
<td>Loss on Disposal of Office Equip.</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>5,239</td>
</tr>
</tbody>
</table>

**Total Expenditure:** 5,572,888

### Surplus / (Deficit) for the Year

- Levy: 9,044,575
- Licensing Fees: 22,437
- Other Income: 20,546
- Total Expenditure: 5,572,888

**Surplus:** 848,455

### Surplus brought forward

- Levy: 9,044,575
- Licensing Fees: 22,437
- Other Income: 20,546
- Total Expenditure: 5,572,888

**Surplus brought forward:** 329,679

### Operating Surplus / (Deficit) at 31 December

- Levy: 9,044,575
- Licensing Fees: 22,437
- Other Income: 20,546
- Total Expenditure: 5,572,888

**Operating Surplus:** 882,418

The Statement of Accounting Policies and Notes 1 to 14 form part of these Financial Statements.

Dermot Nolan
On Behalf of the Commission
### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2011

<table>
<thead>
<tr>
<th>Notes</th>
<th>2011 Total Euro</th>
<th>2010 Total Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit for the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual return less expected return on pension scheme assets</td>
<td>9 (bii)</td>
<td>(1,067,416)</td>
</tr>
<tr>
<td>Experience gains / (losses) on pension scheme liabilities</td>
<td>9 (bii)</td>
<td>36,000</td>
</tr>
<tr>
<td>Changes in assumptions underlying the present value of pension scheme liabilities</td>
<td>9 (bii)</td>
<td>(996,000)</td>
</tr>
<tr>
<td>Transfers in for prior service</td>
<td>9 (biii)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Actuarial Gain/(Loss)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Recognised Losses relating to the Financial Year</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 14 form part of these Financial Statements.

Dermot Nolan
On Behalf of the Commission
## BALANCE SHEET AS AT 31 DECEMBER 2011

<table>
<thead>
<tr>
<th>Notes</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro</td>
<td>Euro</td>
</tr>
<tr>
<td><strong>Fixed Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible Assets</td>
<td>5</td>
<td>2,573,736</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>6</td>
<td>379,137</td>
</tr>
<tr>
<td>Cash at Bank and in hand</td>
<td></td>
<td>148,706</td>
</tr>
<tr>
<td>Short Term Deposits</td>
<td></td>
<td>2,913,133</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3,440,976</td>
</tr>
<tr>
<td><strong>Creditors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Amounts falling due within one year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>7</td>
<td>(934,695)</td>
</tr>
<tr>
<td>Short Term Loan</td>
<td>10</td>
<td>(1,600,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2,534,695)</td>
</tr>
<tr>
<td><strong>Net Current Assets excluding pension liability</strong></td>
<td></td>
<td>906,281</td>
</tr>
<tr>
<td>Pension Liability</td>
<td>9(bi)</td>
<td>(3,470,000)</td>
</tr>
<tr>
<td><strong>Net Current Assets including pension liability</strong></td>
<td></td>
<td>(2,563,719)</td>
</tr>
<tr>
<td><strong>Total Assets Less Current Liabilities</strong></td>
<td></td>
<td>10,017</td>
</tr>
<tr>
<td><strong>Financed by</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Account</td>
<td>8</td>
<td>2,573,736</td>
</tr>
<tr>
<td>Income &amp; Expenditure Account</td>
<td>11(b)</td>
<td>906,281</td>
</tr>
<tr>
<td>Pension Reserve</td>
<td>11(a)</td>
<td>(3,470,000)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10,017</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 14 form part of these Financial Statements.

Dermot Nolan
On Behalf of the Commission
# CASHFLOW STATEMENT for the year ended 31 DECEMBER 2011

## Reconciliation of operating surplus to net cash inflow from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2011 Euro</th>
<th>2010 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit on Income and Expenditure</td>
<td>(466,958)</td>
<td>(1,351,518)</td>
</tr>
<tr>
<td>Difference between Pension Costs and Employers Contribution</td>
<td>(471,416)</td>
<td>(219,683)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>258,955</td>
<td>287,092</td>
</tr>
<tr>
<td>Bank Interest</td>
<td>(20,531)</td>
<td>(7,265)</td>
</tr>
<tr>
<td>Transfer from Capital Account</td>
<td>(201,078)</td>
<td>(256,880)</td>
</tr>
<tr>
<td>Decrease / (Increase) in Debtors</td>
<td>201,958</td>
<td>(237,797)</td>
</tr>
<tr>
<td>Increase in Creditors</td>
<td>(54,363)</td>
<td>(195,570)</td>
</tr>
<tr>
<td>Loss on Disposal of fixed assets</td>
<td>0</td>
<td>5,239</td>
</tr>
<tr>
<td><strong>Net Cash Inflow From Operating Activities</strong></td>
<td>(753,433)</td>
<td>(1,976,382)</td>
</tr>
</tbody>
</table>

## Cash Flow Statement

<table>
<thead>
<tr>
<th>Description</th>
<th>2011 Euro</th>
<th>2010 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash inflow from operating activities</td>
<td>(753,433)</td>
<td>(1,976,382)</td>
</tr>
<tr>
<td>Returns on Investments - bank interest</td>
<td>20,531</td>
<td>7,265</td>
</tr>
<tr>
<td>Capital expenditure - purchase of fixed assets</td>
<td>(57,878)</td>
<td>(35,451)</td>
</tr>
<tr>
<td>Management of Liquid Resources - short term deposits</td>
<td>(1,284,938)</td>
<td>2,143,209</td>
</tr>
<tr>
<td>Financing - Increase in Debt</td>
<td>1,100,000</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Increase in Cash Balances</strong></td>
<td>(975,718)</td>
<td>638,641</td>
</tr>
</tbody>
</table>

## Reconciliation of net cash flow to movement in net funds

<table>
<thead>
<tr>
<th>Description</th>
<th>2011 Euro</th>
<th>2010 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in cash in hand in the period</td>
<td>(975,718)</td>
<td>638,641</td>
</tr>
<tr>
<td>Cash used to increase liquid resources</td>
<td>1,284,938</td>
<td>(2,143,209)</td>
</tr>
<tr>
<td>Cash (Inflow) / Outflow from increase / reduction in Debt</td>
<td>(1,100,000)</td>
<td>(500,000)</td>
</tr>
<tr>
<td><strong>Change in net funds</strong></td>
<td>(790,780)</td>
<td>(2,004,568)</td>
</tr>
<tr>
<td><strong>Opening Net funds</strong></td>
<td>2,252,618</td>
<td>4,257,186</td>
</tr>
<tr>
<td><strong>Closing Net funds</strong></td>
<td>1,461,838</td>
<td>2,252,618</td>
</tr>
</tbody>
</table>

The Statement of Accounting Policies and Notes 1 to 14 form part of these Financial Statements.

Dermot Nolan  
On Behalf of the Commission
Notes to the Financial Statements

1. Establishment of the Commission

The Commission for Electricity Regulation was initially established on 14 July 1999 under the provisions of the Electricity Regulation Act 1999 (No. 23 of 1999). The enactment of the Gas (Interim) (Regulation) Act 2002 expanded the Commission’s jurisdiction to include regulation of the natural gas market on 30 April 2002. The Commission was renamed the Commission for Energy Regulation (CER) to reflect this increased responsibility.

The Minister for Communications, Energy and Natural Resources, with the agreement of the Minister of Finance expanded the Commission to a three member Commission on 13 October 2004, as provided under Schedule 1 of the Electricity Regulation Act 1999. Commissioner Dermot Nolan was appointed as Chairperson on 29 May 2011. The other Member of the Commission is Commissioner Garrett Blaney who commenced his appointment on 15 February 2010. Commissioner Michael G. Tutty retired from his post as Chairperson of the Commission on 27 May 2011.

2. Income

Levy

For the purpose of meeting its expenses under the Electricity Regulation Act, 1999 as amended, the Commission may impose a levy on the relevant energy undertakings. The Commission imposed a levy on the relevant energy undertakings for each activity of transmission, distribution, generation, supply or shipping that is carried out in Ireland as follows:

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 Electricity €uro</th>
<th>2011 Gas €uro</th>
<th>2011 Total €uro</th>
<th>2010 Total €uro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation</td>
<td>1,447,982</td>
<td>0</td>
<td>1,447,982</td>
<td>1,270,428</td>
</tr>
<tr>
<td>Transmission</td>
<td>1,625,776</td>
<td>934,776</td>
<td>2,560,552</td>
<td>2,381,808</td>
</tr>
<tr>
<td>Distribution</td>
<td>1,625,776</td>
<td>934,776</td>
<td>2,560,552</td>
<td>2,381,808</td>
</tr>
<tr>
<td>Supply</td>
<td>1,540,713</td>
<td>0</td>
<td>1,540,713</td>
<td>1,236,241</td>
</tr>
<tr>
<td>Shipping</td>
<td>0</td>
<td>934,776</td>
<td>934,776</td>
<td>1,016,328</td>
</tr>
</tbody>
</table>

Total

6,240,247       2,804,328       9,044,575       8,286,610

Other Income

<table>
<thead>
<tr>
<th>Activity</th>
<th>2011 Bank Interest €uro</th>
<th>2011 Other €uro</th>
<th>2010 Total €uro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Interest</td>
<td>12,742</td>
<td>0</td>
<td>7,265</td>
</tr>
<tr>
<td>Other</td>
<td>15</td>
<td>0</td>
<td>1,872</td>
</tr>
</tbody>
</table>

12,742       7,789       20,546       9,137

The CER intends to recover the costs, in accordance with Section 20 of the Electricity Regulation Act 1999 as amended by the Petroleum (Exploration and Extraction) Safety Act 2010, of its activities on petroleum safety.
3. Employees and Remuneration

(a) Employees costs during the year:

<table>
<thead>
<tr>
<th>Sector</th>
<th>2011 Salaries (Euro)</th>
<th>2011 Employer PRSI (Euro)</th>
<th>2011 Total (Euro)</th>
<th>2010 Salaries (Euro)</th>
<th>2010 Employer PRSI (Euro)</th>
<th>2010 Total (Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>2,869,375</td>
<td>132,526</td>
<td>3,138,646</td>
<td>2,228</td>
<td>120,755</td>
<td>3,449,373</td>
</tr>
<tr>
<td>Gas</td>
<td>1,426,494</td>
<td>132,526</td>
<td>1,559,020</td>
<td>1,438,243</td>
<td>132,526</td>
<td>1,570,769</td>
</tr>
<tr>
<td>Petroleum</td>
<td>288,897</td>
<td>28,405</td>
<td>317,302</td>
<td>288,897</td>
<td>28,405</td>
<td>317,302</td>
</tr>
<tr>
<td>Total</td>
<td>4,584,766</td>
<td>430,202</td>
<td>5,014,968</td>
<td>4,529,810</td>
<td>384,025</td>
<td>4,913,835</td>
</tr>
</tbody>
</table>

The average number of employees during the year, analysed by sector, was as follows:

<table>
<thead>
<tr>
<th>Sector</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>43</td>
<td>67</td>
</tr>
<tr>
<td>Gas</td>
<td>20</td>
<td>67</td>
</tr>
<tr>
<td>Petroleum</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>67</td>
<td>67</td>
</tr>
</tbody>
</table>

The Commission operate a performance management scheme as approved by the Department of Finance and the Department of Communications, Energy and Natural Resources. Of the total employee costs of €5,014,968 during 2011, €219,380 represents the costs associated with the scheme.

(b) Pension Related Deduction as provided under the Financial Emergency Measures in the Public Interest Act, 2009

During 2011 €337,688 pension related deductions were made from the staff of the CER and paid over to the Department of Communications, Energy and Natural Resources.

(c) Commission Members’ Emoluments

<table>
<thead>
<tr>
<th>Member</th>
<th>2011 Expenses (Euro)</th>
<th>2011 Total (Euro)</th>
<th>2010 Expenses (Euro)</th>
<th>2010 Total (Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael G Tutty (Retired 2011)</td>
<td>2,228</td>
<td>2,228</td>
<td>7,489</td>
<td>7,489</td>
</tr>
<tr>
<td>Dermot Nolan, Chairperson</td>
<td>7,098</td>
<td>7,098</td>
<td>4,465</td>
<td>4,465</td>
</tr>
<tr>
<td>Garrett Blaney</td>
<td>7,485</td>
<td>7,485</td>
<td>9,394</td>
<td>9,394</td>
</tr>
<tr>
<td>Total</td>
<td>16,810</td>
<td>16,810</td>
<td>21,348</td>
<td>21,348</td>
</tr>
</tbody>
</table>

The Chairperson’s Remuneration package for 2011 was made up as follows: Annual basic salary €174,182 (2010: €198,433) and Employers Pension Contribution €27,695 (2010: €31,572). The Chairperson’s pension related deduction for 2011 was €16,239. The Chairperson and Members of the Commission do not receive any performance related payments. The Chairperson’s pension entitlements do not extend beyond the standard entitlements in the public sector defined benefit superannuation scheme. Expenses include the following categories: mileage, train fares, subsistence, airfares, hotel accommodation, and sundry items primarily associated with the Chairperson’s attendance at the Council of European Energy Regulators and ERGEG meetings.

4. Professional and Consultancy Fees

The Commission engages consultants in respect of economic, technical, legal, IT and financial services usually on a fixed fee, for a defined period of time to perform specific self-contained tasks or projects. During 2011, the Commission procured services for each activity of electricity, gas and safety regulation which includes petroleum safety as follows:

<table>
<thead>
<tr>
<th>Service</th>
<th>2011 Electricity (Euro)</th>
<th>2011 Gas (Euro)</th>
<th>2011 Safety (Euro)</th>
<th>2011 Total (Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Consultancy Services</td>
<td>104,026</td>
<td>16,199</td>
<td>412,627</td>
<td>532,852</td>
</tr>
<tr>
<td>Technical: Petroleum Safety Consultancy Fees</td>
<td>0</td>
<td>0</td>
<td>505,363</td>
<td>505,363</td>
</tr>
<tr>
<td>Economic Consultancy Services</td>
<td>177,102</td>
<td>280,857</td>
<td>0</td>
<td>457,959</td>
</tr>
<tr>
<td>Financial Consultancy Fees</td>
<td>12,769</td>
<td>67,278</td>
<td>0</td>
<td>80,047</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>51,807</td>
<td>27,763</td>
<td>3,167</td>
<td>82,737</td>
</tr>
<tr>
<td>Legal including Judicial Review Legal Fees</td>
<td>472,018</td>
<td>14,111</td>
<td>148,919</td>
<td>635,048</td>
</tr>
<tr>
<td>Total</td>
<td>817,722</td>
<td>406,207</td>
<td>1,070,076</td>
<td>2,294,005</td>
</tr>
</tbody>
</table>
5. Tangible Assets

<table>
<thead>
<tr>
<th></th>
<th>Leasehold Improvement Euro</th>
<th>Fixtures &amp; Fittings Euro</th>
<th>Office Equipment Euro</th>
<th>Computer Hardware Euro</th>
<th>Computer Software Euro</th>
<th>Total Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December</td>
<td>2,960,977</td>
<td>639,171</td>
<td>218,653</td>
<td>387,274</td>
<td>303,611</td>
<td>4,509,686</td>
</tr>
<tr>
<td>Additions</td>
<td>0</td>
<td>0</td>
<td>1,095</td>
<td>1,095</td>
<td>2,130</td>
<td>57,878</td>
</tr>
<tr>
<td>At 31 December 2011</td>
<td>2,960,977</td>
<td>639,171</td>
<td>219,748</td>
<td>219,748</td>
<td>305,741</td>
<td>4,567,564</td>
</tr>
<tr>
<td><strong>Accumulated Depreciation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>502,526</td>
<td>427,468</td>
<td>154,845</td>
<td>154,845</td>
<td>294,754</td>
<td>1,734,873</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>118,439</td>
<td>81,661</td>
<td>24,048</td>
<td>24,048</td>
<td>7,999</td>
<td>258,955</td>
</tr>
<tr>
<td>At 31 December 2011</td>
<td>620,965</td>
<td>509,129</td>
<td>178,893</td>
<td>178,893</td>
<td>302,754</td>
<td>1,993,828</td>
</tr>
<tr>
<td><strong>Net Book Value:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2011</td>
<td>2,340,012</td>
<td>130,042</td>
<td>40,854</td>
<td>40,854</td>
<td>2,988</td>
<td>2,573,736</td>
</tr>
<tr>
<td>At 31 December 2010</td>
<td>2,458,451</td>
<td>211,702</td>
<td>63,809</td>
<td>63,809</td>
<td>8,856</td>
<td>2,774,813</td>
</tr>
</tbody>
</table>

6. Debtors (due within one year)

<table>
<thead>
<tr>
<th></th>
<th>2011 Euro</th>
<th>2010 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy - Gas</td>
<td>4,081</td>
<td>256,907</td>
</tr>
<tr>
<td>Levy - Electricity</td>
<td>302,522</td>
<td>131,441</td>
</tr>
<tr>
<td>SEM Costs due from NIAUR</td>
<td>14,178</td>
<td>67,310</td>
</tr>
<tr>
<td>Other</td>
<td>15,931</td>
<td>77,781</td>
</tr>
<tr>
<td>Prepayments</td>
<td>52,425</td>
<td>47,656</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>379,137</td>
<td>581,095</td>
</tr>
</tbody>
</table>

The Single Electricity Market (‘SEM’) was established in November 2007. The legal framework establishes new powers and duties for the Commission and Northern Ireland Authority for Utility Regulation (NIAUR) in relation to the regulation of the SEM. Costs are shared in equal proportions with respect to SEM Committee fees and consultancy support.

7. Creditors (Amounts falling due within one year)

<table>
<thead>
<tr>
<th></th>
<th>2011 Euro</th>
<th>2010 Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Creditors</td>
<td>100</td>
<td>(551)</td>
</tr>
<tr>
<td>Accrual - Rent</td>
<td>34,328</td>
<td>34,328</td>
</tr>
<tr>
<td>Accrual - Consultancy and Professional fees</td>
<td>206,170</td>
<td>497,861</td>
</tr>
<tr>
<td>Accrual - Legal Judicial Review</td>
<td>111,573</td>
<td>58,393</td>
</tr>
<tr>
<td>Accrual - Other Creditors</td>
<td>182,668</td>
<td>112,413</td>
</tr>
<tr>
<td>PAYE/PRSI</td>
<td>275,456</td>
<td>267,032</td>
</tr>
<tr>
<td>Payroll</td>
<td>(1,188)</td>
<td>(6,366)</td>
</tr>
<tr>
<td>Professional Services Withholding Tax</td>
<td>125,388</td>
<td>25,948</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>934,695</td>
<td>989,058</td>
</tr>
</tbody>
</table>
8. Capital Account

<table>
<thead>
<tr>
<th></th>
<th>2011 Gas Euro</th>
<th>2011 Electricity Euro</th>
<th>2011 Total Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>654,339</td>
<td>2,120,474</td>
<td>2,774,813</td>
</tr>
<tr>
<td>Finds allocated to acquire fixed assets</td>
<td>18,548</td>
<td>39,330</td>
<td>57,878</td>
</tr>
<tr>
<td>Amount amortised in line with asset depreciation</td>
<td>(73,724)</td>
<td>(185,231)</td>
<td>(258,955)</td>
</tr>
<tr>
<td>Net amount of transfer</td>
<td>(55,176)</td>
<td>(145,902)</td>
<td>(201,078)</td>
</tr>
<tr>
<td></td>
<td>559,163</td>
<td>1,974,573</td>
<td>2,573,736</td>
</tr>
</tbody>
</table>

9. Pensions

a) Pension Costs


b) Net Pension Liability

- Present value of funded obligations: 12,071 (2011), 10,040 (2010)

bii) Present Value of Scheme Obligations at beginning of year

- Present Value of Scheme Obligations at end of year: 12,071 (2011), 10,040 (2010)

biii) Change in Scheme assets Fair Value of Scheme Assets at beginning of year

- Transfers in for prior service: 0 (2011), 22 (2010)
- Fair Value of Scheme Assets at end of year: 8,601 (2011), 8,126 (2010)

The current practice of increasing pensions in line with public sector salary inflation is taken into account in measuring the defined benefit obligation.
c) Description of Scheme and Actuarial Assumptions

The pension scheme is a defined benefit final salary pension arrangements with benefits defined by reference to current “model” public sector scheme regulations. Employer and employee contribution rates are set having regard to actuarial advice and periodic review on the funding rate required for the scheme. The scheme provides a pension (eightieths per year of service), a gratuity or lump sum (three eightieths per year of service) and spouse’s and children’s pensions. Normal Retirement Age is a member’s 65th birthday, and pre 2004 members have an entitlement to retire without actuarial reduction from age 60. Pensions in payment (and deferment) normally increase in line with general public sector salary inflation.

The Financial assumptions used for FRS17 purposes were:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rate</td>
<td>5.00%</td>
<td>5.40%</td>
</tr>
<tr>
<td>Salary Increases</td>
<td>3.75%</td>
<td>3.75%</td>
</tr>
<tr>
<td>Pension Increases</td>
<td>3.25%</td>
<td>3.25%</td>
</tr>
<tr>
<td>Inflation Increases</td>
<td>2.00%</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

Assumptions regarding future mortality experience are set based on published mortality tables (PMA92/PFA92) prepared for the Actuarial Profession in the U.K. by the Continuous Mortality Investigation Bureau tables. The mortality assumptions chosen are based on standard tables reflecting typical pensioner mortality and they allow for increasing life expectancy over time.

The weighted average life expectancy, for post-retirement mortality tables used to determine benefit obligations at:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male Member age 65</td>
<td>21.6</td>
<td></td>
</tr>
<tr>
<td>Female Member age 65</td>
<td>24.7</td>
<td></td>
</tr>
</tbody>
</table>

The scheme assets at the year-end comprised:

<table>
<thead>
<tr>
<th>Asset</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>70.82%</td>
<td>77.6%</td>
</tr>
<tr>
<td>Bonds</td>
<td>18.79%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Property</td>
<td>4.49%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Other</td>
<td>5.9%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Actual return less expected return on scheme assets

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Return</td>
<td>(490)</td>
<td>713</td>
</tr>
<tr>
<td>Less: Expected return</td>
<td>(577)</td>
<td>(502)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1,067)</td>
<td></td>
<td>211</td>
</tr>
</tbody>
</table>

In developing the expected long-term rate of return on assets assumption, the Commission considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 5.79% assumption (after allowance for pension levy of 0.6% in 2012).

d) History of defined benefit obligations, assets and experience gains and losses

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2011</th>
<th>2011</th>
<th>2011</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit</td>
<td>€12,071</td>
<td>€10,400</td>
<td>€9,594</td>
<td>€8,326</td>
<td>€6,464</td>
</tr>
<tr>
<td>obligations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of Scheme</td>
<td>€6,601</td>
<td>€8,126</td>
<td>€6,497</td>
<td>€4,175</td>
<td>€5,038</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficit (Surplus)</td>
<td>€3,470</td>
<td>€1,914</td>
<td>€3,097</td>
<td>€4,151</td>
<td>€1,426</td>
</tr>
<tr>
<td>funded scheme</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial (gain)/loss</td>
<td>€60(750)</td>
<td>(99)</td>
<td>810(1,762)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>on liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience adjustment</td>
<td>(1,067)</td>
<td>211(2,289)</td>
<td>(686)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>on assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

e) Funding of Pensions

The Commission expects to contribute €1,087,000 to its pension scheme in 2012.
f) Prior pensionable service

The assets and liabilities of the pension schemes relate to retirement benefits arising from service with the Commission. Two Commission members and six staff members have superannuation entitlements arising from service with other public sector bodies prior to their joining the Commission. The Commission is entitled to recover the cost of funding the prior service from other public bodies under the terms of its membership of the Public Service Transfer Network.

10. Short Term Loan

In accordance with paragraph 24 of the First Schedule to the Electricity Regulation Act, 1999, as amended, the CER have entered into a commercial loan agreement with Allied Irish Bank for an amount not to exceed €2,300,000. The consent of the Minister for Communications, Energy and Natural Resources and the Minister for Finance was received on the 29th June 2011. This loan is required to meet the Commission’s financial requirements for the establishment and implementation of the Petroleum Safety Framework.

11(a) Reconciliation of movements in Reserves

<table>
<thead>
<tr>
<th>INCOME AND EXPENDITURE ACCOUNT</th>
<th>Electricity €’000</th>
<th>Gas €’000</th>
<th>Petroleum €’000</th>
<th>Capital Account €’000</th>
<th>Pension Reserve €’000</th>
<th>Total €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Balance at 1st January</td>
<td>300</td>
<td>1,958</td>
<td>(443)</td>
<td>2,774</td>
<td>1,914</td>
<td>2,706</td>
</tr>
<tr>
<td>Surplus/(Deficit) for the Financial Year</td>
<td>848</td>
<td>(196)</td>
<td>(1,119)</td>
<td>0</td>
<td>0</td>
<td>(467)</td>
</tr>
<tr>
<td>Net Movement in Capital</td>
<td>(200)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(200)</td>
</tr>
<tr>
<td>Actuarial Loss</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(2,027)</td>
</tr>
<tr>
<td>Movement in Reserve</td>
<td>(296)</td>
<td>(148)</td>
<td>(28)</td>
<td>471</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Closing Balance at 31 December</td>
<td>882</td>
<td>1,614</td>
<td>1,590</td>
<td>2,574</td>
<td>3,470</td>
<td>10</td>
</tr>
</tbody>
</table>

An adjustment has been made to bring the pension reserve in line with the pension liability.

11(b) Accumulated Surplus for the year

In accordance with Paragraph 20 of the Schedule to the Electricity Regulation Act, 1999 the Commission is required to apply any excess of revenue over expenditure in any year to meet its expenses. Accordingly the accumulated surplus attributed to the electricity sector of €882,418 was taken into account in determining the levy order for 2012. The accumulated surplus attributed to the gas sector of €1,614,303 was taken into account in determining the levy order for 2012.

The CER will publish its decision on the High Level Design of the Petroleum Safety Framework mid-year in 2012. The CER will subsequently set out its decisions on how it will levy the petroleum industry before the end of 2012. Once the Petroleum Safety Framework is substantially implemented in 2013, the Commission will be in a position to levy petroleum undertakings for all project implementation costs incurred to date as well as ongoing operational costs for the Framework.

12. Interests of Members of the Commission

The Commission adopted procedures in accordance with the Code of Practice for the Governance of State Bodies issued by the Department of Finance in relation to the disclosure of interests by the Members of the Commission and these procedures have been adhered to in the year. There were no transactions in the year in relation to the Commission’s activities in which the Members of the Commission had any beneficial interest.

13. Commitments – Capital and Others

13.1 Capital Commitments:
The Commission had neither contracted for nor authorised any capital expenditure at the balance sheet date.

13.2 Operating Leases
The Commission has annual commitments of €411,933 payable on foot of a twenty five-year lease for office accommodation at The Exchange, Belgard Square North, Tallaght, Dublin 24, leased from Breydon Developments Ltd (In Receivership), which are the only offices occupied by CER.

14. Approval of Financial Statements

The Commission approved these financial statements on 02.05.2012.