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 2012 to 31st December 2012.

Dermot Nolan
Chairperson

Garrett Blaney
Commissioner

Paul McGowan
Commissioner

June 2013
# Table of Contents

4  >  Foreword from the Commissioners  
8  >  Public Interest Statement  
12 >  Statement of Best Practice  
14 >  Background of the Annual Report  
15 >  Key Task 1: Develop Petroleum Safety Regulatory System  
17 >  Key Task 2: Progress existing Onshore Safety System  
23 >  Key Task 3: SEM and European Electricity Integration  
37 >  Key Task 4: Progress CAG  
42 >  Key Task 5: Decide on Bord Gáis Networks’ Revenue  
45 >  Key Task 6: Retail and Customer Protection  
51 >  Key Task 7: Progress Smart Metering  
55 >  Key Task 8: Renewables Facilitation and Networks Development  
56 >  Key Performance Indicators  
62 >  Financial Statements
Foreword from the Commissioners

1/ Chairperson
   Dermot Nolan
2/ Commissioner
   Garrett Blaney
3/ Commissioner
   Paul McGowan

INTRODUCTION
The Commission for Energy Regulation (CER) is Ireland’s independent energy regulator, with a wide range of functions in economic regulation, safety regulation and customer protection. Our key objective as an economic regulator is to protect energy customers. As the country’s energy safety regulator our core focus is on protecting lives and having a world-class safety record.

The CER’s diverse energy economic and safety roles continued to dominate our work in 2012. Key economic developments during the year included the conclusion of the 5-year revenue review for Bord Gáis Networks, a decision on the regulatory treatment of the Bord Gáis gas interconnectors, a decision to proceed with a National Smart Meter Roll-out Programme (NSMP) and progress in relation to the wholesale Single Electricity Market (SEM). In safety the CER continued to implement its downstream safety functions and to promote energy safety awareness among the public. At the same time the CER prepared for Ireland’s new upstream petroleum safety regime with a view to go-live in November 2013.

These and other developments are detailed in this CER Annual Report and summarised below, including an outline of some of the key challenges ahead.

ENERGY PRICES
The international cost of gas, which is outside of Ireland’s control, is a key driver of Ireland’s electricity and gas prices. The fall in the international cost of gas in 2009 contributed to noticeable reductions in our energy prices in 2009 and 2010. Unfortunately the cost of gas has risen again since then, especially in euro terms. As a result, 2012 saw rises in electricity and gas tariffs both in Ireland and in other European countries. This included an 8.5% rise in regulated Bord Gáis Energy residential gas tariffs.

The CER appreciates that energy tariff rises are difficult for many customers in the current economic climate. To help mitigate the effects of this, we encourage customers to “shop around” among the many competing energy suppliers for the best tariff deal.

CUSTOMER PROTECTION
To assist customers in shopping around, the CER has set-up a framework for accrediting price comparison websites. Under this framework, a website providing an energy price comparison service can be accredited by the CER if it meets defined standards of accuracy, transparency, and reliability. In March 2012 www.bonkers.ie was the first such website accredited by the CER, and this was followed-by the accreditation of www.uswitch.ie in May 2013. This system gives energy customers the confidence to use accredited price comparison websites, assisting them in finding the best tariff offer.

More generally, during 2012 the CER monitored the retail markets including supplier market shares, switching rates, disconnection levels and customer experiences, and this is expected to develop further.
in the coming years. In particular the CER continued to enforce stringent obligations on suppliers to help ensure that energy disconnections are a last resort. For example, prior to making any disconnection moves, all suppliers are required to offer customers a free Pay-As-You-Go meter to help them manage their bills. Overall, the rate of disconnections in electricity for 2012 for non-payment of account was broadly the same as in 2011, though there was a rise in gas disconnections. The CER will closely monitor this matter.

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 or network operator – please see www.energycustomers.ie for further information.

SINGLE 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 wholesale electricity (generation) costs are at competitive levels, by jointly regulating the wholesale all-island Single Electricity Market (SEM) with the Utility Regulator in Belfast. The SEM is governed through the SEM Committee, consisting of the CER, the Utility Regulator and an Independent Member.

Assisted by its clear regulation and inherent transparency, the SEM has encouraged modern efficient generation into the island in recent years. This has helped to keep prices competitive, ensure continued security of electricity supply and delivered environmental benefits. In 2012 the SEM continued to work well: it ran the cheapest available plants across the island where feasible to meet demand, while the System Marginal Price (SMP) broadly followed gas costs as expected given the island’s generation mix.

Key developments in SEM in 2012 included the go-live of intra-day trading in July to assist interconnector trading, and the continuation of the “DS3” workstream to facilitate more renewable generation. The year also saw the conclusion of the medium-term review of the capacity payment mechanism with a decision to fix one aspect of the payment (the Best New Entrant fixed cost) for 3 years to 2015, to provide for increased certainty.

The biggest policy development of all in SEM in 2012 related to the project to integrate SEM into a single internal European “target model” market by 2016. The SEM Committee published a major consultation paper on the matter in January, followed by industry workshops organised by the Regulatory Authorities, leading to a proposed decision on the next steps in November 2012 and a final decision in February 2013. This project will continue to be a priority in the coming years, with a consultation on a new SEM High Level Design expected in late 2013.

ENERGY NETWORKS
During 2012 the new 500 MW EirGrid East-West electricity interconnector to the UK was completed, within budget. Following a technical fault the interconnector commenced full commercial operation in May 2013, and it should promote more cross-border trade in the SEM, to the benefit of customers, as well as assisting wind generation and security of supply. Investment in the on-shore electricity network also continued during the year, in order to provide for a high quality energy supply and the connection of more wind farms.

In gas networks, 2012 saw the completion of the CER’s review of the allowed revenue and tariffs for the monopoly Bord Gáis Networks transmission and distribution systems, covering the 5 years to 2016/17. The key objective of this exercise was giving “value for money” to customers and setting appropriate revenues to adequately maintain and develop the gas network.

Following consultation, in 2012 the CER published a significant decision on the regulatory treatment of the Bord Gáis gas interconnectors and all entry points to the transmission system, setting out a forward-looking Long Run Marginal Cost (LRMC) tariff methodology. The basic objective of the CER’s decision in this area
is to reward efficient new sources of gas while at the same time containing any upward pressure on tariffs, recognising the crucial role that the interconnectors play in securing Ireland’s long term energy supply requirements.

**SMART METERS**

In 2012 the CER decided to proceed with the roll-out electricity and gas “smart meters” to all homes and many businesses across Ireland in the coming years under the National Smart Metering Programme (NSMP). This followed the completion of pilot trials which 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, say every 30 minutes. Thus they allow for the provision of more consumption information to customers and they allow suppliers to charge varying electricity prices to reflect the different cost of electricity at different times. This combination of a more informed customer and new tariff structures facilitates reductions in 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.

The CER will extensively engage with stakeholders and interested parties in 2013 as it takes this project forward.

**PETROLEUM SAFETY**

In 2012 the CER’s energy safety division progressed the implementation of Ireland’s new Petroleum Safety Framework (PSF), covering oil and gas exploration and extraction activities. Following public consultation, the CER published a decision on the High Level Design of the PSF in June 2012, representing a significant milestone in the project. Subsequently in November the CER published a number of consultation papers relating to the Framework’s permissioning system, while papers for other areas such as compliance assurance and enforcement will be published for public consultation in 2013 prior to final decisions.

Overall the project is on-track, and hence the CER expects the new petroleum safety regime to “go-live” by end November 2013, at which stage we will be able to take receipt of the first safety case under the PSF.

**ELECTRICITY AND GAS SAFETY**

During 2012 the CER continued to monitor the safety performance of the Registered Electrical Contractor and Registered Gas Installer schemes, taking prosecutions where necessary against persons completing works that were not registered. The CER also began to fully implement its regulatory functions to cover LPG safety incidents and aspects of LPG distribution networks.

As part of the CER’s Gas Safety Framework, there were technical risk-based inspections of the gas networks and of shippers/suppliers carried out by the CER to help continually improve safety standards. The results of these audits will feed into the next audit schedule for 2013. In addition the CER continued to monitor for safety incidents on the gas networks.

In 2012 the CER ran a public awareness campaign aimed at increasing awareness of the “Safe Electric” brand, thereby encouraging people to only use a Registered Electrical Contractor for electrical works in their homes or businesses. The first Carbon Monoxide Awareness Week took place in September 2013, to raise awareness on the causes and dangers of Carbon Monoxide (CO) and the basic precautions available to prevent its production or warn of its existence, including the use of CO alarms.

**LOOKING AHEAD**

In addition to our important operational roles, key project work for the CER in 2013 includes progressing the smart metering and SEM European integration workstreams and finalising the development of the new petroleum safety regime for “go-live” at the
end of November. The CER is also preparing for its anticipated new role as Ireland’s economic water regulator, expected to formally commence in late 2013.

Building on our achievements to date and looking forward to new challenges, the CER will continue to endeavour to provide a first-class regulatory service to all its customers in a cost-effective manner.

Dermot Nolan
Chairperson

Garrett Blaney
Commissioner

Paul McGowan
Commissioner

June 2013
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 2012
The CER is headed by up to three Commissioners at any one time. In 2012 the Commissioners were Dermot Nolan, Chairperson, and Garret Blaney. The Commissioners were assisted in their duties by a staff of about 70, including 4 directors. The chart below summarises the organisational structure from last year.

Since last year Dr. Paul McGowan has been appointed as Commissioner (in March 2013) and there have also been other organisational changes including the appointment of Sheenagh Rooney as Director of Energy Safety in May 2013. These and other organisational changes in 2013 will be reflected in next year’s annual report.

INFORMATION PROVISION
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 2012 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 2012 in order to achieve its mission. For example:

- **Key Task 1** (Develop Petroleum Safety Framework Regulatory System) and **Key Task 2** (Progress Existing Onshore Safety System) contributes to energy being supplied safely.

- **Key Task 3** (SEM and European Electricity Integration) contributes to the lights staying on and the electricity prices being fair and reasonable for customers.

- **Key Task 4** (Progress CAG) contributes to the gas continuing to flow and prices being fair and reasonable.

- **Key Task 5** (Decide on Bord Gáis Networks’ Revenue) contributes to the gas continuing to flow, the lights staying on and customers paying fair and reasonable prices for their gas.

- **Key Task 6** (Retail and Customer Protection) contributes to customers paying fair and reasonable prices for their electricity and gas.

- **Key Task 7** (Progress Smart Metering) contributes to electricity/gas prices being fair and reasonable and the protection of the environment.

- **Key Task 8** (Renewables Facilitation and Networks Development) contributes the environment being protected.

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 2012
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. During 2012 the CER’s Energy Manager Team developed and implemented our 2012 Energy Management Programme in line with CER’s Energy Policy.
The CER’s objective is for exemplary performance in energy management and energy efficiency in the public sector. In pursuance of this objective, the CER put in place a number of initiatives in 2012.

Firstly, with regards to awareness, CER ran an Energy Efficiency Competition between the different floors in the office with weekly updates to encourage energy efficiency. We also promoted energy awareness through the implementation of renewed signage and the installation of energy monitors on all main office floors. An Energy Efficiency Ideas scheme was established.

Ongoing energy management initiatives include the automatic shut-down of PCs and energy efficient settings (e.g. auto sleep mode) on all relevant photocopiers. The CER is participating in SEAI’s Public Sector Programme “The Public Sector Energy Partnership”. We are involved in the public sector energy monitoring & reporting process, run by SEAI.

The CER’s Energy Management Team continues to meet fortnightly to consider progress in its 2013 Energy Management Programme and ideas for further energy savings.

**ENERGY USAGE 2012**

The CER’s office accounts for 100% of its energy usage. During 2012 a total of 174.15 MWh of energy was consumed, consisting solely of electricity. This represents a reduction of 35.85 MWh, or 17%, on 2011 (equivalent data for 2010 and 2011 is 289 MWh and 210 MWh respectively). The CER is currently collecting weekly meter reads and will, when sufficient data exists, carry out a “degree day” analysis to determine how much of our energy consumption is weather dependent (space heating, etc.).

Once results under the SEAI’s public sector energy monitoring and reporting process are available these will be reported.
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 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 2012 was published on the CER’s website on 11th April 2012;

- 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 50 occasions in 2012. Chairperson Dermot Nolan attended 50 meetings and Commissioner Garrett Blaney attended 45 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 participator, investor, consultant or otherwise. In addition, in respect of the period covered by this report, there are no registerable 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.

Dermot Nolan
Chairperson

Garrett Blaney
Commissioner

Paul McGowan
Commissioner

June 2013
Background to the Annual Report

REPORT STRUCTURE
This Annual Report provides an overview of the CER’s key work items and achievements in 2012. 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 2013. Such work is generally mentioned here for completeness.

As part of the CER’s business planning process a large number of work items were identified for commencement, continuation or delivery during 2012. Of these, 8 were selected as the CER’s “8 Key Tasks for 2012”. 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 2012 in order to achieve its mission. While the main focus of the CER’s work during 2012 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 2012. 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 2012 are provided at the end of this Annual Report.

CER’S EIGHT KEY TASKS
In its work programme for 2012, published on the CER’s website, the CER identified the following 8 key strategic tasks for commencement, progression, or delivery during 2012, 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**: Develop Petroleum Safety Framework Regulatory System
- **Key Task 2**: Progress existing Onshore Safety System
- **Key Task 3**: SEM and European Electricity Integration
- **Key Task 4**: Progress CAG
- **Key Task 5**: Decide on Bord Gáis Networks’ Revenue
- **Key Task 6**: Retail and Customer Protection
- **Key Task 7**: Progress Smart Metering
- **Key Task 8**: Renewables Facilitation and Networks Development

Please see the CER’s 2012 Work Programme for more detail behind each of these tasks.
Key Task 1: Develop Petroleum Safety Framework Regulatory System

BACKGROUND TO FRAMEWORK
The Petroleum (Exploration and Extraction) Safety Act, 2010 (the “2010 Act”) passed on 3rd April 2010 confers upon the CER the role of safety regulator for designated upstream petroleum activities. In essence this means that specific exploration and extraction activities carried out by petroleum undertakings in Ireland will be subject to safety regulation by the CER.

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. The Petroleum Safety Framework describes the system that will be used to regulate the safety of petroleum undertakings. The overall aim is for the Framework to be fully operational from November 2013.

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 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 Framework sets out the scope of the petroleum activities and associated infrastructure that will be regulated by the CER. It requires petroleum undertakings to obtain permission from the CER to undertake designated petroleum activities by submission and approval of a safety case that, amongst other things, describes how risks have been reduced to a level that is as low as is reasonably practicable (ALARP).

The Framework covers a wide range of activities associated with unprocessed upstream petroleum products whether off-shore or on-shore, i.e. those gas or oil products which have not yet been processed to sales quality level to distribute to the final gas customer via the national grid. This includes well work (drilling, well testing, etc.), production and decommissioning of petroleum infrastructure. The upstream infrastructure and the red pipes below illustrate this, while the yellow line depicts downstream infrastructure.
Once implemented, the key benefits that will be realised by the Petroleum Safety Framework are:

- 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;

- 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; and,

- It will bring greater clarity and transparency to the regulation of petroleum activities with respect to safety in Ireland.

PROGRESS IN FRAMEWORK DEVELOPMENT
Consultation on the High Level Design of the Petroleum Safety Framework by the CER commenced in 2011 with the publication of the Consultation Paper on the High Level Design of a Petroleum Safety Framework in August 2011, followed by the publication of the Draft Decision on the High Level Design in February 2012. The consultations 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. Between the two consultation papers, the CER received 133 responses in total.

Following the CER’s consideration of the comments received, the CER published its decision paper on the High Level Design of Petroleum Safety Framework in June 2012. This represented a significant milestone in the implementation of the Framework.

Subsequently, the Detailed Design of the Petroleum Safety Framework commenced. The Detailed Design involves determining the appropriate policy/content for each of detailed regulations, documents and procedures which comprise the Petroleum Safety Framework in the areas of:

- 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.


Looking forward, the CER will continue to develop papers for the remaining of the Permissioning System, Compliance Assurance, Petroleum Incidents and Enforcement system. These papers will be published for public consultation in 2013 prior to final decision.

Finally the Framework is funded by way of a levy on the petroleum industry. The CER also published the Petroleum Safety Levy Order for consultation in October 2012 and the subsequent Decision paper in February 2013.

The CER expects to be able to take receipt of its first Safety Case in November 2013, as planned.

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**Key Task 2:**
Progress Existing Onshore Safety System

**GAS INSTALLERS AND ELECTRICAL CONTRACTORS**

Under the Energy (Miscellaneous Provisions) Act 2006 the CER was given statutory responsibility for regulating the activities of gas installers and electrical contractors with respect to safety. In order to fulfil its functions the CER designated Safety Supervisory Bodies (SSBs) to carry out the day to day management of the gas and electrical schemes. The Register of Gas Installers of Ireland (RGII) was nominated in respect of gas installers, while the Register of Electrical Contractors of Ireland (RECI) and the Electrical Contractors Safety and Standards Association of Ireland (ECSSAI) were nominated in respect of electrical contractors.

The CER produced two Criteria Documents that set out how the Registered Gas Installers (RGIs) and Registered Electrical Contractors (RECs) schemes are to be operated, including the responsibilities of the SSBs, RGIs and RECs. In order to provide assurance to the CER that the SSBs are fulfilling their obligations under the relevant Criteria Document, the SSBs report against a series of safety metrics on a quarterly basis. This allows the CER to identify trends across the gas and electrical schemes.

**Statistics for Gas Installers and Electrical Contractors**

In 2012, the CER continued to monitor the performance the gas and electrical schemes and worked towards improvements in these areas.
The quarterly reports show that there was 2,938 RGIs in Ireland in Q4 of 2012, which is an increase of circa 5% when compared to the number of RGIs at the end of 2011. The sale of certificates remains strong with those relating to the servicing of appliances constituting in excess of 90% of the total number of certificates sold.

Figures for the electrical scheme, which is branded as the Safe Electric scheme, relate to both RECI and ECSSAI. These show that the number of RECs continued to decline in 2012. However there was a change in the trend in the number of certificates sold. Certificate sales were up 39% in 2012 compared to the previous year. This was due to an increase in the number of Minor and Sub-system type certificates sold, mainly falling out of activity in the installation of pre-pay meters and the telecommunications area. Sale of domestic type certificates remain subdued with sales down 5% in 2012 compared to 2011.

**Restricted Electrical Works**

In September 2011 the CER published the proposed decision paper on the Scope of Restricted Electrical Works. After receiving Ministerial consent in July 2012 to designate the scope of Restricted Electrical Works the CER drafted a Statutory Instrument which defines Restricted Electrical Works. This was submitted to the Department of Communications, Energy and Natural Resources (DCENR), who will have it laid before the Oireachtas by the Minister for approval.

When enacted, this will prohibit anyone other than a REC from carrying out electrical work in a domestic premises. This includes wiring a new home, rewiring an existing home, adding a new electrical circuit, or any other major electrical works in a domestic setting. This does not include minor works, for example, like-for-like change of a light switch. The date for this change will not be finalised until the statutory instrument has been approved by both houses of the Oireachtas. This is expected to happen during 2013.

**Illegal Gas Works Prosecutions**

It is a legal requirement that persons completing gas works relating to domestic natural gas appliances, including domestic type appliances installed in a commercial setting, be registered with RGII.

Two successful prosecutions were undertaken in this area in 2012. These were against persons for carrying out gas works in Cork (18th April 2012) and Limerick (16th April 2012) while not being registered with RGII. This brings the total number of successful prosecutions in this area to three.

**Gas Safety Courses**

The CER has chaired an industry working group to facilitate development of two award standards relating to gas safety. The Domestic Gas Safety (DGS) award standard will facilitate replacement of the existing Gas Installer Safety and Gas Installer Domestic training courses, the completion of which provide a route to RGII registration. The Commercial Gas Safety award will allow training providers to develop accredited commercial gas training courses and is required in order to extend RGII membership to commercial installers.

The award standards are currently being reviewed by Quality and Qualifications Ireland (QQI). It is intended that the award standards will be published later this year at which time training providers registered with QQI can apply to have their course validated.

**Ongoing Assessment for Gas Installers**

In order to ensure that competencies are kept up-to-date every five years all RGIs will be required to pass an assessment that has been accredited to the ISO/IEC 17024 standard. Throughout 2012 the CER has facilitated the interaction between industry stakeholders, certification bodies, training providers and accreditation bodies to allow for the implementation of the scheme. It is envisaged that the ongoing assessment scheme will come into operation in mid-2013.
GAS SAFETY FRAMEWORK
In 2006, the Energy (Miscellaneous Provisions) Act was passed and gave the CER responsibility to:

- Regulate the activities of natural gas undertakings and gas installers from a safety perspective; and,

- Promote the safety of natural gas customers and the general public with regards to the supply, storage, transmission, distribution and use of natural gas.

The CER discharges these responsibilities through the ongoing operation and review of its “Natural Gas Safety Regulatory Framework”, which was published in October 2007. This Framework comprises a collection of regulations, written regulatory documents and procedures, which together describe how the CER regulates the Natural Gas Undertakings, through the use of six key Regulatory objectives:

- Minimising the loss of containment;
- Maintaining safe system operating pressure;
- Minimising the risk of injecting gas of non-conforming quality;
- Providing an efficient and coordinated response to gas emergencies;
- Minimising the safety risks associated with the utilisation of gas; and,
- Promoting public awareness of gas safety.

The CER completed a number of workstreams in 2012 regarding these safety functions, as follows:

Gas Safety Incidents
Bord Gáis are legally required to report specific categories of incident to CER; Type A which involves a fatality; Type B which involved hospital treatment of individuals; Type C which involves property damage in excess of a specified value. These incidents are referred to as “Reportable” incidents. The CER may also be notified of other incidents by Bord Gáis where Bord Gáis feels that CER may be concerned or interested in relation to the findings associated with the event(s). These incidents are referred to as “non-reportable” incidents.

In 2012 there were four non-reportable and one reportable (Type B) Natural Gas incident notified to the CER. The reportable incident occurred in January 2012. This incident involved a gas explosion at a private property in Leixlip which required the hospitalisation of two members of the same family and extensive damage to the house. There was no gas servicing the property, and along with our interaction with the Health and Safety Authority, this investigation will continue on into 2013.

Gas Safety Cases & Material Changes
The CER accepted the Kinsale Energy Interim storage safety case in 2012. Additionally a material change of the Gaslink safety cases for the transmission and distribution networks was accepted. The change was associated with Bord Gáis Network “Network Services Works Contract”. The new contract amalgamated the many different service contractors working for Bord Gáis Networks under one single longer term contract. The scope of the new contract incorporated safety critical services such as emergency response. Bord Gáis Networks processes were closely monitored during the transition from one service provider to another.

Auditing and Inspections
As part of the overall Framework, an audit and inspection programme covering all Natural Gas Undertakings was drawn up for 2012, with a number of audits and audit topics based upon risk levels and findings. Three technical audits were carried out on Bord Gáis Networks in 2012 focusing on Management of Change, Risk Assessment and the Natural Gas Emergency Plan (NGEP). There were 12 audits of shippers and suppliers carried out in 2012 with three
shipper and supplier audits deferred to Q1 2013 due to the timing of their triennial reviews. Twelve transmission and distribution inspections were also carried out. The results of these monitoring activities inform the schedule for 2013.

**ELECTRICITY REGULATION ACT 1999 (LIQUEFIED PETROLEUM GAS WORKS) REGULATIONS 2011**

The CER began to prepare for the implementation of its regulatory functions to cover safety in the LPG industry in 2012. The first step of the implementation is a consultation process which will revise and update the Natural Gas Safety Framework. The Framework will now be known as the Gas Safety Regulatory Framework, and will encompass both natural gas undertakings and LPG undertakings. It places certain safety obligations on LPG undertakings and gives the CER the power to licence and regulate certain LPG undertakings along with natural gas undertakings. During 2013 the CER will progress any changes needed to the existing framework to give effect to its new powers in relation to LPG and increased enforcement.

**PROMOTION AND PUBLIC AWARENESS**

Public awareness of safety issues regarding electrical and gas issues are a key concern for the CER. In light of this public awareness campaigns highlighting these issues such as the Safe Electric and Carbon Monoxide Awareness campaigns were undertaken in 2012. Further detail is provided below.

**Safe Electric Campaign**

From Q4 2011 to Q3 2012 the CER ran a safety awareness campaign, known as “Safe Electric”. This was run across multiple media including TV, radio, press and online (www.safeelectric.ie). It was designed to make people aware that they should hire a REC when getting any electrical work completed in their home and to ask for a certificate when the work is complete. The campaign’s message was that by hiring a REC, people can ensure that any work carried out in their home is completed by a competent contractor who is insured and inspected as part of the Safe Electric scheme.

**Carbon Monoxide Awareness**

As part of its Promotion and Public Awareness remit the CER, in conjunction with Bord Gáis Networks and other relevant industry stakeholders, carry out a number of initiatives annually to promote gas safety.

One of these initiatives was a Carbon Monoxide Awareness Week that took place from Monday 24th to Sunday 30th September 2012. This involved a PR launch with the Minister for Communications, Energy and Natural Resources, Pat Rabbitte, together with advertising, radio, press and television campaigns, including appearances on TV3’s Ireland AM and The Morning Show where the risk of Carbon Monoxide poisoning and the importance of Carbon Monoxide alarms were discussed. An important element of the campaign was the active involvement of people directly affected by Carbon Monoxide.

The objective of the awareness week was to create and maintain awareness of the dangers associated with Carbon Monoxide and to communicate the preventative measures that the public should take.

The three core messages of the campaign were:

- **Remember the causes**: Carbon Monoxide can be produced when any fuel is burnt, including oil, gas, wood and coal;
Key Task 3: SEM and European and Electricity Integration

The following items were identified as key tasks in the all-island Single Electricity Market (SEM) for 2012:

- Publication of a consultation paper setting out options on how the SEM might integrate into a pan-European electricity market;
- Draft a detailed project plan for the market integration project;
- Progress annual work streams such as Directed Contracts and generator charges/losses;
- Complete Capacity Payments Review; and,
- Implement regulatory changes decided on from the market power and liquidity review.

The end of this section of the report also covers wholesale/generation issues relevant to Ireland only, i.e. security of supply, generation licensing and the PSO.

SEM BACKGROUND

The SEM is the wholesale electricity market for the island of Ireland which was opened on 1st November 2007. Comprising two separate jurisdictional electricity markets, the SEM is one of the first markets of its kind in Europe. It 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.

- Remember to service: To prevent Carbon Monoxide, have your appliances serviced annually and keep vents, flues and chimneys clear;
- Remember the alarm: For added protection install an audible Carbon Monoxide alarm.

To find out more about Carbon Monoxide causes, symptoms, prevention and protection measures, call 1850 79 79 79 or visit www.carbonmonoxide.ie.
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 generator run to meet demand across the island. Suppliers (to electricity customers) that purchase energy from the pool, pay the SMP for each trading period along with capacity costs and system charges. This is illustrated below, with the detailed rules set out in the Trading and Settlement Code.

The SEM is 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. 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.

During 2012 the Regulatory Authorities continued to monitor and oversee the SEM and the suite of regulatory rules governing it, actively supervising the SEM and representing the interests of all-island consumers. Key SEM updates for 2012 are shown below.

### INTRADAY TRADING

The introduction of intraday trading in SEM was a key highlight in 2012. On 21st July, a modification to SEM was implemented to create two new Gate closures in the market. These new gates allow additional opportunities for trading in SEM. In particular, the new gates create a mechanism to release interconnector capacity that is not used by long-term capacity rights holders back into the market for use by all interconnector users. It is expected that this will result in a better utilisation of the East West and Moyle interconnectors.

The Intraday trading modification was brought forward as a result of Regulation 2003/1228 (“2nd legislative Package”) of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity - this provides that all Member States must have intra-day trading mechanisms in place on their borders.

### EUROPEAN MARKET INTEGRATION

At the February 2011 European Council meeting, Member States committed to deliver a fully-functioning, interconnected and integrated internal energy market by 2014. The Communication on the Internal Energy Market published by the European Commission on 15th November 2012 highlighted the benefits of a truly integrated European market and identified the need for further action in a number of areas including consumer protection, enforcing the existing rules and investing in the modernisation of energy infrastructure.

In this context, a key focus for the CER during 2012 was to develop plans to integrate the SEM into this
pan-European electricity market to promote cross-border competition and deliver significant benefits to consumers.

The EU “Target Model” for electricity evolved out of the EU’s Third Energy Package in 2009, which is a set of legislative measures that aim to create a single competitive European energy market. The Agency for the Cooperation of Energy Regulators (ACER), established under the third Package of EU energy legislation, has identified a number of key elements to the design of the Target Model to facilitate market integration. These include methods for calculating interconnector capacity available across borders and determining appropriate market zones. These also include methodologies for allocating cross border capacity in different timeframes namely forwards, day ahead and intraday.

SEM Market Integration Project
Due to its centralised structure and gross mandatory pool design, it seems likely that the SEM will require significant modifications to implement the Target Model. In recognition of this, ACER has granted the SEM a two-year derogation, an additional two years to implement the Target Model, i.e. from 2014 to 2016.

In January 2012, the RAs published a consultation paper in January 2012 to seek views on options for implementing the Target Model in Ireland and Northern Ireland in a manner that is consistent with national and EU policy objectives. In addition, the RAs hosted a number of industry workshops and engaged with a wide range of stakeholders including Government Departments, System Operators, Ofgem and ACER to discuss the issues involved in integrating SEM into the European market.

The SEM Committee published a proposed decision paper on the next steps in the process of market integration in November 2012 and a final decision paper in February 2013. The main conclusions of this paper include:

- The establishment of a set of high-level principles which will govern the design and implementation of the new market;

- The establishment of project governance arrangements with strengthened stakeholder engagement to ensure that consumer groups and market participants are adequately involved in the project.

- Commitment to maintaining the current structure of the SEM until 2016 and to carrying out an impact assessment on the new market design in line with best practice; and,

- A working assumption that the new market will continue to be based on transparent, centralised trading arrangements with least-cost dispatch.

During 2013 the Regulatory Authorities will initiate the project to develop a new SEM High Level Design. It is expected that a Consultation Paper will be published towards the end of 2013.

Framework Guidelines and Network Codes
The detailed rules of the Target Model are developed by the Agency for Cooperation of Energy Regulators (ACER) and the European Network of Transmission System Operators for Electricity (ENTSOE) and are finalised by the European Commission.

ACER initiates the process by developing Framework Guidelines. Based on these Framework Guidelines, ENTSOE develops detailed Network Codes. This is all done in consultation with interested stakeholders. The final Network Codes will be made into binding Regulations following a comitology process. More information on this process and the individual Framework Guidelines and Network Codes is available on the ACER and ENTSOE websites.

On 25th September 2012, ACER Adopted the Framework Guidelines on Electricity Balancing and reviewed four Network Codes as submitted by ENTSO: the Network Code on Requirements for Generators,
the Network Code on Demand Connection, the Network Code on Capacity Allocation and Congestion Management. ACER issued preliminary opinions on the Requirements for Generation Network Code (October) and the Capacity Allocation and Congestion Management Network Code (December). ACER called for improvements to be made in both of these codes before they are passed to the European Commission and the comitology process.

France-UK-Ireland (FUI)
In order to enable an efficient transition to the single European market, a number of regional initiatives were launched in 2006. These initiatives bring together Regulators, TSOs, the European Commission, Member State Governments, industry and stakeholders to develop and implement common policies for the trading of electricity across borders in each region. Ireland is part of the France-UK-Ireland (FUI) region.

The SEM Committee continued to progress work related to increasing electricity market integration with neighbouring jurisdictions in the FUI region throughout 2012. Key achievements for the FUI region include:

- Approval of detailed access arrangements (Access Rules) for use of the East West and Moyle interconnectors;

- Approval of the charging methodology for interconnector capacity acquired at the intra-day timeframe;

- Establishment of joint working arrangements with Ofgem; and,

- Agreement that TSOs in the region should engage in greater levels of cooperation and that they should develop more robust countertrading and balancing arrangements in region.

REMIT
REMIT is the new EU “Regulation on Energy Market Integrity and Transparency” which entered EU law on 28th December 2011. REMIT introduces new EU-wide market rules and monitoring in energy. It 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 to help inform market participants on REMIT was held by Regulatory Authorities in March 2012. During the year the RAs also inputted to ACER meetings discussing the proposed REMIT registration and transaction reporting system. 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. The RAs will continue with this task in 2013.

MARKET MODELLING GROUP
The RAs’ Market Modelling 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) and the reserve price for public Service (PSO)-related CfDs. The MMG also monitors the volume and price of Non-Directed Contracts (NDCs).

The majority of the MMG’s modelling of SEM outcomes is over the short term (1 to 2 years), and is used, for example, to quantify/price DCs and to forecast generator financial performance. 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 MMG implements a suite of DCs on behalf of the SEM Committee. DCs are designed to significantly reduce the incentive on the incumbent generators (ESB Power Generation and NIE Energy Power Procurement Business) to submit bids in the SEM above competitive levels or withhold capacity in order to influence SEM spot prices or future contract prices.
The quantities of DCs imposed on the incumbent generators are set to achieve a desired concentration level in the SEM which is measured by the Herfindahl-Hirschman Index (HHI). A HHI threshold of 1,150 was chosen by the RAs. At this level, only ESB Power Generation (ESB PG) was required to sell DCs in 2012. The RAs required ESB PG to offer three types of DCs, namely baseload, mid-merit and peak, in order to reduce market concentration in each segment for each quarter.

Following public consultation, since Summer 2012 DCs have been offered quarterly for a period up to five quarters ahead, on a rolling basis. The numbers of DCs offered by ESB PG to eligible suppliers from Q4 2012 to Q3 2013 (as of March 2013) are shown in the table below.

### Pricing of Directed Contracts
The prices of Directed Contracts were determined each day during the subscription periods using forward fuel and carbon prices and regression formulae determined by the RAs through econometric analysis. These formulae were designed to mimic the results of the validated SEM PLEXOS model. The prices of Directed Contracts are published by the RAs on the All Island Project website after each quarterly auction.

### PSO-Related Contracts
In addition to the above contracts, ESB PG also offered contracts associated with the Irish Public Service Obligation (PSO). Using the validated PLESOS model and up-to-date forward fuel prices, the RAs determine the reserve prices of the PSO related contracts, i.e. the price at which they are offered to the market and auctioned off to suppliers.

For the 2012/2013 contract year (Q4 2012 to Q3 2013) the PSO-Related CfDs were offered on a quarterly basis, with auctions occurring one month ahead of the quarter in question. The contracts are being offered at monthly granularity and the types of contracts offered include: baseload, mid-merit 1 and mid-merit 2, thus providing a wide range of choice for market participants.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Baseload</th>
<th>Midmerit</th>
<th>Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2012</td>
<td>247</td>
<td>0</td>
<td>165</td>
</tr>
<tr>
<td>Q1 2013</td>
<td>298</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>361</td>
<td>14</td>
<td>N/A</td>
</tr>
<tr>
<td>Q3 2013</td>
<td>360</td>
<td>111</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Generator Financial Reporting
During 2012, 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.

A decision document was published by the RAs in May 2012, taking account of comments received to the public consultation on the publication of information on generators’ financial performance. This decision paper set out the financial reporting template to be completed by generator companies with a combined capacity greater than or equal to 2.5 MW.

Market Power and Liquidity
Following earlier consultation, in November 2011 the SEM Committee published a draft decision paper on market power and liquidity 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, 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; and,

- 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.

Following rom this, during the first half of 2013 ESB’s Generation licence was amended to allow for horizontal generation integration, following a public consultation on the matter during which no objections to the proposed licence change were received by the CER.

LOCATIONAL SIGNALS
TLAFs
In June 2012 the SEMC published its decision paper on the Treatment of Losses in the SEM. This followed an extensive period of consultation with industry on the enduring approach to Transmission Loss
Adjustment Factors ("TLAFs"). Having conducted and reviewed the RA modelling analysis and that of industry participants the SEM Committee decided not to implement "splitting", that is different approaches to TLAFs in the market schedule to TLAFs applying in the dispatch schedule. In addition the Committee decided to maintain the existing approach of “compressed TLAFs”.

**Generator TUoS**

In August 2012 the SEM Committee published its decision paper on the review of Generator Transmission Use of System Charging (GTUoS) and the accompanying all-island GTUoS tariffs for the tariff year 2012-13.

Three sets of tariffs were provided by the TSOs based on two methodologies as requested by the SEM Committee. Tariff set one was based on the default 2011-12 methodology, with Tariff Set 2a and 2b based on an amended methodology following a review of SEM Committee requested items. The workstream carried out was further development of the Locational Signals project, which aims to put in place appropriate signals in GTUoS tariffs to promote optimum location of generation plants.

As part of its decision the SEM Committee also requested that further analysis was carried out on the tariffs, including the possibility of fixing the methodology for a set period. The TSOs will report to the SEM Committee on this matter in 2013.

**DS3**

The 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, bearing in mind renewable commitments – 40% of electricity consumption targets to come from renewables 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 and the Sustainable Power Systems report (published 2011). This programme is called the “DS3 Programme – Delivering a Secure, Sustainable Electricity System” and involves 12 separate workstreams in the areas of system performance, system policies and system tools. The RAs are actively engaged in monitoring progress and over-seeing the delivery by the TSOs of these workstreams. Full details on each workstream can be found on EirGrid’s website (www.eirgrid.com).

The review of system services (ancillary services) is one of the key work-streams in the DS3 project. It has involved 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. To date the TSO has published three consultation papers on its proposed approach and is expected to submit its Recommendations Paper to the RAs at the end of March 2013.

The TSO’s consultations have focused on both the technical design of proposed new system services, the structure of new services and the methodology being proposed by the TSOs to obtain a value for the proposed new services. The TSO’s modelling has indicated a value to the system of €295 million associated with the delivery of the DS3 programme. The RAs have not yet taken a view of the approach taken by the TSOs but will be publishing a proposed decision on this in Q3 2013.

Throughout 2012, the Grid Code Review Panel considered a number of Grid Code modifications associated with DS3. Chief amongst these was the proposed modification on Rate of Change of Frequency (RoCoF). The TSOs proposed to increase the Grid Code RoCoF requirement from 0.5 Hz/sec to 1.0 Hz/sec. Conventional generators have indicated significant difficulties in meeting this proposed new standard and the need to carry out lengthy and expensive studies to determine compliance levels.
Following a number of Grid Code Review Panel meetings and the establishment of a working group under the Grid Code Review Panel to discuss this matter, the modification was submitted to the CER in late 2012 for approval. The CER intends to review this modification in 2013.

TREATMENT OF CURTAILMENT IN TIE-BREAK SITUATIONS

In late 2011, the SEM Committee published its decision on the Treatment of Price Taking Generation in Tie-breaks in Dispatch in the SEM. This paper set out the rule-set for the dispatch down of price taking generation in the event of a tie-break situation i.e. where there was no market indicator to distinguish between competing plant. This decision related to both the treatment of constraints and curtailment. However in March 2012, the SEM Committee decided to withdraw the element of its decision related to curtailment. A communication was issued to the industry on this, which was followed up by a consultation paper on the treatment of curtailment in tie-break situations in April 2012.

This paper set out four options for this issue and each of these options were considered against a set of decision making criteria outlined by the SEM Committee. The options were considered against the following:

- Impact on the consumer and Dispatch Balancing Costs;
- Facilitation of Ireland and Northern Ireland 2020 Renewable Targets;
- Efficiency of Entry Signal;
- Stable Investment Environment;
- Consistency of treatment for constraints and curtailment.

93 responses to the consultation were received, while the SEM Committee also considered independent modelling produced by the TSOs into the potential impact of the various options on consumers and DBC. Following this review, the SEM Committee published a Proposed Decision paper which outlined its favoured option for the treatment of curtailment in tie-break situation. The SEM Committee has subsequently in early 2013 arrived at final decision on this matter. This decision outlined that all generators in the tie-break situation would be turned down on a pro-rata basis for the treatment of curtailment and that Dispatch Balancing Cost (DBC) compensation for curtailment will be available until 31st December 2017 but would no longer be available from 1st January 2018. The SEM Committee also published an approved rule-set provided by the TSOs to distinguish between constraints and curtailment.

Constraint Groups

As part of its decision on the treatment of constraints in tie-break situations published in December 2011, the SEM Committee required the TSOs to model constraint groups on the island and to provide a report to the SEM Committee. This was carried out in 2012 and the SEM Committee carried out a consultation on the proposed constraints groups. This identified a constraint group in the Donegal region and the South-west of Ireland. The SEM Committee subsequently approved the constraint groups modelled by the TSO, in early 2013.

CAPACITY PAYMENT REVIEW

In April 2009 the SEM Committee published a consultation paper documenting the scope of work that it 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 the medium term review.

This medium term review was concluded in 2012. A Final Decision Paper was published in 2012.
Key points from the CPM Medium Term Review Final Decision Paper include:

- 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 design of the distribution allocation should be changed;

- The Forced Outage Probability percentage within 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; and

- The BNE calculation methodology was revised so that the Fixed Costs of the BNE would be calculated for 2013 and then fixed for three years, with indexing being applied in 2014 and 2015. The Capacity Requirement will be recalculated annually.

The SEM Committee also recommended increasing the Flattening Power Factor to 0.5. This was consulted upon in August 2012. Based upon the responses, it was clear that there was no support for making changes to the Flattening Power Factor, and it was decided to keep it at its previous value of 0.35.

These decisions were implemented for the 2013 determination of the Best New Entrant (BNE) Fixed Cost and the Annual Capacity Payment Sum (ACPS). The BNE Fixed cost for 2013 is €78,18kW/year. The Capacity Requirement was set at 6,778MW and the ACPS is set at €529,876,722.

**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 2012 the SMP rose 2% on average against the 2011 SMP. This rise is due to a combination of increasing gas prices, up 13%, and falling Market Scheduled Quantity (MSQ), down 2%, over the same period.

The graph shows the average daily profile for 2012, 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 would be 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 has fallen 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 €60/MWh in 2011 and 2012. This trend is shown in the graphs below.
IRELAND’S SECURITY OF SUPPLY
The CER has a duty to promote continuity, security and quality of supply of electricity. The CER monitors the security of supply of electricity and can take such measures as it considers necessary to protect security of supply.

Mainly due to the continuing weak economic conditions in Ireland 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 has reduced and this trend has continued into 2012 with an estimated further reduction of 1.76% in annual consumption.

Although a record system peak demand of 5,090 MW was set in December 2010, in 2012 the system peak demand was 4,589 MW at 17:30 on Monday 10th December 2012. At peak demand in 2012 the total available dispatchable plant was 6,647 MW, wind contributed 419MW and there was an export flow of 203 MW on the North-South tie line which gives a very comfortable margin at peak of 2,274 MW.

2012 saw the continuing connection of largely renewable energy onto the system. A record of 1,506 MW of wind generation was seen on the 17:45 on 21st December 2012. The approximate installed generation capacity by fuel type in Ireland at the end of 2012 is show below.

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.
In August 2010 during a routine refurbishment at a pump storage unit in Turlough Hill, significant fatigue cracking was found on one of the units. Subsequent investigations on the remainder of the units found similar issues; this lead to the outage of all units at Turlough Hill. The CER monitored progress on the repair works to ensure that the units were return to service as quickly as possible. In parallel with repairing the faults, ESB took the opportunity to carry out an extensive overhaul of all the units. The units returned to service during 2012 on a phased basis with the last unit returning to service towards the end of August.

During 2012 the East-West Interconnector (EWIC), a 500 MW High Voltage Direct Current (HVDC) connection to Britain was commissioned by EirGrid. This interconnector fortifies Ireland’s energy security of supply position and promotes cross-border trade. The EWIC also connects the growing renewable connections in Ireland to a wider European grid, thus suitably absorbing additional non-synchronous capacity (primarily wind). EWIC was officially opened on 20th September 2012, however due to a technical fault the commercial operation date was delayed to 21st December 2012 and the interconnector has operated at a reduced capacity from this date. EirGrid and ABB worked to resolve the issue and EWIC returned to full capacity in May 2013.

The Moyle interconnector connects the Northern Ireland transmission system to the Scottish transmission system. The interconnector is a 500 MW High Voltage Direct Current connection and consists of 2 cables, each capable of transferring 250 MW. On Saturday 23rd June one of the cables developed a fault. This has resulted in the Moyle interconnector capacity being reduced to 250 MW. Mutual Energy, the owners of the interconnector, is working to identify the location of the fault and options to resolve the issue. It is expected that they will be in a position in early 2013 to recommend solutions to UR, the Northern Irish energy regulator, to resolve the issue. Given the complexity of the issue it is not expected the Moyle interconnector will return to service for a number of years. Although this interconnector is not directly connected to the Irish Transmission system, the unavailability of a portion of a flexible resource may have consequential impacts on the Irish system.

### 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 2012 29 new Authorisations to Construct and 29 Licences to Generate were issued by the CER.

<table>
<thead>
<tr>
<th>Fuel Type</th>
<th>Connected (MW)</th>
<th>Percentage of Total Connected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>3,742</td>
<td>49.3%</td>
</tr>
<tr>
<td>Coal</td>
<td>863</td>
<td>11.4%</td>
</tr>
<tr>
<td>Oil</td>
<td>217</td>
<td>2.9%</td>
</tr>
<tr>
<td>Peat</td>
<td>292</td>
<td>3.8%</td>
</tr>
<tr>
<td>Hydro</td>
<td>237</td>
<td>3.1%</td>
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<tr>
<td>Wind</td>
<td>1,642</td>
<td>21.6%</td>
</tr>
<tr>
<td>Pumped Hydro</td>
<td>292</td>
<td>3.8%</td>
</tr>
<tr>
<td>Other Renewables</td>
<td>305</td>
<td>4.0%</td>
</tr>
</tbody>
</table>
IRISH PSO LEVY 2012
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 2012 to September 30th 2013 was published in July 2012. The total levy for this period amounts to €131.2 million.
Key Task 4: Progress CAG

This section of the report covers the Common Arrangements for Gas (CAG) project as well as EU-related gas developments and the Gas Capacity Statement.

CAG INTRODUCTION

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:

- 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, 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 customer in Ireland.

Accordingly, the CER embarked on two studies in relation to CAG. The first, which was commissioned jointly with the Utility Regulator, examined the issue of single balancing zone and timelines associated with the single balancing point (both virtual and physical). The CER also carried out its own more general cost benefit analysis update study on CAG to ensure the underlying goal of delivering mutual benefits to Irish customers is likely to be met. Both studies are near conclusion and will feed into the CAG project.

ACHIEVING COMPLIANCE WITH EU REGULATIONS

Given this delay in the CAG project, in 2012 it became necessary to focus on meeting compliance with EU
requirements under EU Regulation 1775/2005 regarding the conditions of access to the gas transmission pipelines. Specifically for Ireland this involved amending the access conditions to the Irish gas network at two points, the Moffat Interconnection Point and the South-North gas pipeline.

Achieving compliance at the Moffat Interconnection Point, the point of interconnection between the Irish and Great British (‘GB’) natural gas transportation systems in Scotland, involved implementing a “backhaul” or “virtual reverse flow” service, whereby gas can be virtually transported from Ireland to GB.

To explain, where it is technically not possible to physically transport gas through a pipeline in both directions, EU Regulation 1775/2005 requires that a TSO to offer capacity as a “counter flow” or “backhaul” on a virtual basis in the other direction. The gas is not actually moving in the opposite direction, but the gas flow requested in the counter flow direction is subtracted from the gas flowing in the forward direction. The CER worked closely with the TSOs, and the GB National Regulatory Authority, Ofgem, in 2011 to successfully implement a virtual reverse flow service at Moffat for 2012.

In relation to the South-North gas pipeline, a gas transmission pipeline that spans both the Irish and Northern Irish jurisdictions, achieving compliance with EU Regulation 1775/2005 in practice involved putting arrangements in place so that market participants can have third party access to the pipeline. Following development work by Gaslink, the Irish TSO, and consultation with industry, in July 2012 the CER approved the implementation of physical forward flow and virtual reverse flow access arrangements on the South-North Pipeline.

FRAMEWORK GUIDELINES AND NETWORK CODES
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 2012 the European Regulators progressed the development of the Network Codes for Capacity Allocation Mechanism (CAM), Balancing and Interoperability and also the Framework Guidelines for tariffs, each of which will present significant changes to the Irish gas market.

The CER has provided important input into the development of the Framework Guidelines, and subsequent Network Codes 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 implementation of these Network Codes will be a considerable undertaking and the CER is preparing an implementation programme for each of the Network Codes. The ‘Congestion Management Procedures’ will be implemented in October 2013 and the CER is working closely with the TSOs and adjacent National Regulatory Authorities to ensure compliance is achieved on time. The Balancing and Interoperability Network Codes, as well as the Tariff Framework Guidelines will also be further developed in 2013 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.
JOINT GAS CAPACITY STATEMENT
In 2012 the CER and Utility Regulator jointly worked on a Gas Capacity Statement to cover supply and demand forecast on the island over the next ten years. The 2012 Gas Capacity Statement focuses on the period up to 2022.

For the duration of the reporting period, the island's demand will continue to be met primarily from GB imports via the Moffat Entry Point and from gas storage at Inch. The Gas Capacity Statements notes that further sources of supply are also expected to come on stream during the period.

The timing and availability of indigenous gas projects are critical to ensure that capacity limits at the Moffat Entry Point are not breached. These new sources may significantly change the direction and the nature of flows on the island's transmission network. As a result the Gas Capacity Statement notes that further system analysis will be required to ensure that low operating pressures are not encountered on the system.

However, it should be noted that despite indigenous gas projects coming on stream, gas from Moffat will continue to provide security of gas supply to ROI for the reporting period.

Gas demand in ROI comes from three sectors, namely Power generation, Industrial & Commercial users and domestic users. The power generation is the largest gas user as gas is the primary fuel used for electricity generation in Ireland. Over the reporting period it is expected that gas demand is expected to grow at an average rate of 2.9% p.a.
Key Task 5: Decide on Bord Gáis Networks’ Revenue

This section of the report covers Price Control 3 as well as the regulatory treatment of interconnectors and gas retail tariffs.

**PRICE CONTROL 3**

**Background**

The CER as the independent energy regulator is responsible for regulating the level of revenue which the gas network utility, Bord Gáis Networks (BGN) may recover from its customers to recover costs. This workstream involves the five-yearly review of BGN, and sets the amount of revenue that it can recover from its customers over the five year period, in this case from October 2012 to September 2017.

The CER commenced its 5-year revenue review process for gas networks in 2011, focusing on “value for money” for customers, efficiency gains and the investment plans required to maintain and develop the gas network. 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 main role in this area is to ensure that current and future customers are protected as well as ensuring a stable investment environment. The CER sets out this revenue stream via what is called a Price Control (PC).

PC3 is the third such regulated revenue period which runs for 5 years. A Draft Decision was published in May 2012 and subsequently the CER published the allowed revenues for BGN in November 2012. This Price Control covers the period October 2012 to September 2017.

In regulating the gas network, the CER implements a model of best practice in revenue regulation. BGN is required to submit its proposals for required revenues, including capital expenditure over the next five-year period. The CER analyses and reviews their proposals, with the aim of achieving operational efficiencies while ensuring the correct level and type of investment in the network. Historical reviews of performance over the previous revenue control period are also carried out. The network companies are benchmarked against similar organisations internationally and areas of their business where improvements need to be made are targeted. The review also considered the revenue required to carry out modifications to the operating model structure of BGN in accordance with EU Third Package Legislation.

During PC2, Gaslink assumed responsibility as the Transmission System Operator (TSO) and Distribution System Operator (DSO). Thus, Gaslink is responsible for operating, maintaining and planning the system. Bord Gáis Networks (BGN) constructs, extends and maintains the system on behalf of Gaslink on a day to day basis.

To comply with Third Package requirements, the activities of Gaslink and BGN are to be amalgamated as an independent subsidiary of BGÉ, as part of the implementation of an Independent Transmission Operator (ITO) model.

**Review of PC2**

The PC3 period follows on from the second revenue regulation period (known as “PC2”), and as part of the process an assessment of BGN’s performance over PC2 period was carried out. The PC2 period saw a number of projects being completed. These include the completion of the Curraleigh West to Midleton pipeline and a pipeline to a new 459 MW gas fired power station is being finalised at Great Island Co. Wexford.

Furthermore, the PC2 period saw the reliable delivery of gas despite two consecutive severe winters which tested the system severely. This leads to additional
pressure on the gas transmission system as during periods of severe weather gas demand for both heating and power generation increases.

The connection of 17 new towns to the gas network also continued during the period.

Overall, in the PC2 there was a €75 million difference between the allowed capital expenditure and the actual capital expenditure in transmission. The economic downturn during the period saw lower demand for gas. For example, the rapid decline in the construction sector impacted on demand for domestic gas connections (at the distribution level) as the number of connections declined. In summary, one of the noticeable effects of the economic downturn was that capital expenditure that had been expected to occur did not in fact arise.

**PC3 Decision**

In May 2012 the CER consulted on PC3 for the gas transmission system. The PC3 project aims to ensure that the transmission network is maintained at an adequate standard to meet customer expectations as well as ensuring that an appropriate level of capital is attracted to support the approved level of investment. The assets that require remuneration constitute the Regulated Asset Base (RAB).

The consultation on the Price Control arose at a time of economic uncertainty in the Eurozone. As a result the consultation outlined that where it was necessary the allowed capital for the transmission business would be reviewed if market conditions were to change substantially.

In November 2012 the CER published its Decision Paper allowing €998.5m to be recovered for the transmission system from October 2012 to September 2017. This was lower than the request from BGN for revenues between €1,092m to €1,176m. Similarly, CER allowed €996m to be recovered from the distribution system over the period of PC3. This was lower than the request from BGN for revenues between €1,177m to €1,258m. Key drivers in the reductions in allowed revenues, from that which was requested by BGN, were the final WACC (Weighted Average Cost of Capital) and reductions in both the approved capital expenditure and operating expenditure.

The PC3 decision outlined that the WACC for BGN (for both transmission and distribution) was to be set at 6.39%. This was higher than the WACC set in PC2. The economic difficulties being experienced in the Eurozone has resulted in European companies in certain countries having difficulty in raising finance. BGN will continue to need to finance its obligations over the PC3 period and therefore the associated costs are higher. This will have an adverse effect on customers’ tariffs. The CER is aware of the negative effects that may arise and therefore have included a trigger mechanism whereby the WACC would be reviewable if market conditions during the period were to improve. This review mechanism has a floor and ceiling of 5.2% and 8.2% respectively.

**REGULATORY TREATMENT OF BGÉ 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 BGÉ 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.

The current transmission entry tariffing regime needs reform. Without reform, and assuming the investments in the ICs are not to be stranded, the reduced IC throughput (due to new sources of gas coming on stream) will increase the unit IC entry tariff, potentially significantly so. This higher IC entry tariff would, in turn, push up the wholesale price for gas in Ireland. This would be inefficient and damaging to both consumer interests and Ireland’s energy competitiveness.
The CER continues to rule out the earlier canvassed options of:

- doing nothing;

- stranding the IC investments which are considered to be an integral part of the national transmission system; and,

- removing any premium or differential to developers of new gas sources by moving to a completely postalised tariffing regime and ignoring cost conditions at different entry points.

The CER is committed to a tariff policy which recognises and rewards new entry which can be shown to be efficient by reference to other entry, in particular to entry from GB across the ICs which, it is assumed, will continue to be the marginal source of gas supply for the foreseeable future. The CER will base this tariff policy on forward looking long run marginal cost (LRMC) considerations rather than historic cost considerations – for example, a prescribed portion of the historic costs of the ICs which would be deemed to constitute an efficient price signal to new investors. This preference for a forward looking LRMC approach is grounded on:

- sound economic principles;

- (the specific circumstances of the Irish gas system;

- avoiding arbitrary regulatory judgment calls which would arise with the historic based approach; and,

- compatibility with the applicable EU rules.

Preliminary indicative LRMC based differentials for entry points to the system were given in the CER’s June 2012 decision on this matter, along with the working assumptions underlying their derivation.

There are risks and challenges posed by moving to an LRMC based tariff regime. To ensure full transparency and stakeholder involvement in establishing the LRMC methodology, the decision provides for managing these challenges, particularly by establishing a Networks Tariff Liaison Group open to key stakeholders.

An LRMC based tariff regime will require a mechanism to deal with a potential required revenue shortfall. This is not unusual in any LRMC based tariffing regime. The decision sets out CER current thinking on the optimal revenue shortfall recovery mechanism. The key point, however, is that the chosen mechanism will be designed so as not to mitigate or take from the premium, or differential, available to developers of efficient new sources of gas entry.

The European Commission (DG Energy) services have advised the CER that its plans to treat the ICs as an integrated part of the transmission system and to base entry tariffs on LRMC at each entry point are, in principle, compatible with EU rules. The CER will keep the situation under review as current proposals for harmonising cross border tariffs within the EU are progressed within the ACER and ENTSOG framework provided for in the Third Energy Package.

The new tariff regime is expected come into effect in October 2014 (in line with the expected completion date of the European harmonisation work streams referenced above). The work of the planned Networks Tariffs Liaison Group in assisting the development of the precise methodology for deriving LRMC based tariffs at each entry point was expected to commence in 2012. The final decision on approving any tariffs and underlying methodology will, however, rest with the CER.

In summary, the CER is taking a decision which it considers protects the interests of consumers by preventing them from facing unnecessarily high gas prices in the future, but it also provides an appropriate signal for efficient new entry in a manner that is consistent with EU policy.

The decision was subject to Judicial Review in the High Court. The proceedings took place in March 2013 and judgement is awaited.
RETAIL GAS TARIFFS
Following consultation, in September 2012 the CER published a decision paper regarding Bord Gáis Energy (BG Energy) residential gas tariffs to apply from 1st October. BG Energy requested a gas tariff increase due to higher network tariffs and gas commodity costs. Gas commodity costs had risen because the value of the Euro had decreased against Sterling over the year, raising costs given that Ireland purchases virtually all of its gas in Sterling from Great Britain.

The CER sets BG Energy residential tariffs such that only efficient costs are paid for by customers. BG Energy ultimately requested more than a 9% rise in gas prices, but the CER allowed an 8.5% rise - as part of its decision, the CER cut allowed Bord Gáis supply costs by circa €2 million. Even with this rise, gas remains competitive with home heating oil, while Ireland’s residential gas prices are generally lower than the EU average.

Key Task 6: Retail & Customer Protection
This key task involved the implementation of the EU’s “3rd Package” of legislation, which includes the following primary aims:
- Develop the new retail market monitoring framework;
- Complete the consumer survey; and,
- The Energy Customers Team continuing to deal with consumer complaints and information requests as well as meeting requirements set out in the 3rd Package, namely, to act as the Single point of Contact and to comply with the requirements for Universal Design.

In addition the CER sought to implement a decision on domestic gas market deregulation.

RETAIL MARKETS
Background
Increased competition and deregulation in retail markets requires a more comprehensive framework to monitor the state of competition and assess if consumers are benefitting from it, as required by the 3rd Package, which has been transposed into Irish legislation. The 3rd Package refers to a package of EU legislation on European electricity and gas markets, which places a renewed emphasis on customer protection. National regulators (including the CER) are required to monitor retail markets across a range of indicators, to take action where necessary, to prevent distortion or restriction of competition in the supply of electricity and gas to final customers, and to ensure that final customers are benefitting from competition in the supply of electricity.
The CER has been developing a new retail market monitoring framework in order to meet these new requirements and respond to the increased competition resulting from the deregulation of the electricity and gas markets. This monitoring framework will be crucial in ensuring that consumers continue to benefit from competition.

The one section of the retail energy markets that has yet to be deregulated is the domestic gas market. The CER has been in the process of developing a roadmap setting out the path for the deregulation of this market segment.

The CER has a statutory responsibility to provide a complaints resolution service to customers with an unresolved complaint with their supplier or network operator. Since 2008 the CER’s Energy Customers Team has provided a dedicated service to customers with queries and unresolved complaints regarding their network operator or supplier. A separate Energy Customers Team Annual Report issues to the Minister detailing the number and type of complaints received from customers, their resolution and the service levels provided by suppliers.

**Retail Market Monitoring**

With the transition to full deregulation and the provisions of the 3rd Package the CER reviewed its retail market monitoring framework. A consultation paper was published in December 2011 setting out the proposed enhanced framework. The new framework was based on best practice and proposed examining 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).

Following the publication of the consultation paper the CER received detailed responses from stakeholders. The issues raised by respondents are being considered and further development work has been undertaken to progress the framework. Given the importance of this workstream the CER intends to engage further with a range of stakeholders in order to develop a framework that is appropriate for the market. The CER will publish a decision document setting out the proposed market monitoring framework in 2013.

Throughout the course of 2012 the CER has continued to apply its existing market monitoring framework which covers a number of key indicators such as market share, switching rates, complaints, disconnections, suppliers’ compliance with Codes of Practices and supply licences, and direct customer experiences (via annual survey and complaints). A number of reports were published over the course of the year providing stakeholders with market indicators in the above areas. These market monitoring activities in conjunction with the general customer protection measures will ensure that consumers benefit through the efficient functioning of the retail markets and in doing such fulfil the key retail aims of the 3rd Package.

**Retail Market Shares**

Competition continued to develop in the electricity and gas retail markets in 2012. There were no new entrants in the gas or electricity markets; however data suggests that the incumbent supplier in the gas Non Daily Metered (NDM) retail market, Bord Gáis Energy, is losing market share.

In electricity, Electric Ireland continues to be the largest supplier in terms of customers across all segments and in terms of MWh in the domestic (residential) and Large Energy User (LEU) markets. Energia remains the largest supplier (in terms of MWh) in the small and medium business markets. The domestic market share (MWh) of Electric Ireland (59.6%) is just under the threshold at which it was deregulated (60%).

In gas, Bord Gáis Energy is the largest supplier in terms of customers and consumption in the domestic, Industrial Commercial (IC) and Fuel Variation Tariff (FVT) markets. In the Regulated Tariff Formula (RTF) market, Bord Gáis Energy has the highest GWh and Vayu has the largest number of customers.
While Bord Gáis Energy had a 65.65% share of customers in the domestic gas market in Q4 2012, it has experienced significant decreases in share over the past year. Assuming a similar rate of attrition that was experienced in 2012, it would be expected that Bord Gáis Energy will reach both thresholds for deregulation (60% without rebranding and the 55% with rebranding) within the next 12 months.

The following charts show the market shares of the key energy suppliers in the electricity and the gas domestic markets at the end of 2012:

**Customer Switching**
Switching is an important metric of competition and consumer engagement in the retail markets. Switching is continuing in both the electricity and gas markets and switching rates are above 10% in both markets. Under the VaasaETT description of the levels of switching, the Irish electricity market is considered a “warm active” market and switching activity is sufficient. The Irish gas market is considered a “hot market”. Ireland ranks very well globally in terms of switching rates. However, reductions in switching were experienced in both electricity and gas between 2011 and 2012, and the level of switching in electricity appears to be stabilising.

The total number of switches completed in the electricity market in 2012 was 252,056. This represented a decline in the total number since 2011 of 25%. This decline is driven by a decrease in domestic market switching. Increases were experienced in all other market segments. The total number of switches completed in the gas market in 2012 was 110,579. This represented a decline in the total number since 2011 of 2% (with declines of 2% in the domestic market and 11% in IC).

**Customer Debt and Disconnections**
Customer protection measures continued to be enhanced during 2012. The CER published a decision paper on the Supplier Handbook for suppliers of electricity and gas, which set out the minimum service levels that suppliers must provide their customers with. The Supplier Handbook covers all key areas of customer-supplier interaction, including billing, disconnections, marketing and customer sign-up.

2012 was the first full year since the introduction of the debt flagging process and the roll-out of pay-as-you-go (PAYG) keypad meters for electricity customers. Suppliers are required to offer customers a PAYG meter prior to taking steps to disconnect. PAYG meters are provided free of charge to
customers experiencing difficulty in paying their bills. These developments provided suppliers with tools to assist customer in managing their bills and minimise disconnections.

Debt flagging was introduced in light of on-going 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. Overall approximately 1.9% of electricity change of supplier requests were debt flagged (4,746), and in gas 0.6% were debt flagged (829).

There was a general upward trend throughout 2012 in the number of PAYG meters installed in electricity; however, compared to 2011, gas PAYG meter installations has declined. The CER is continuing to monitor the number of PAYG meter installs on an on-going basis and is working with industry and customer advocacy and support groups to further promote PAYG meters to those who would benefit most from them.

The economic environment in 2012 continued to be challenging and has seen a continued level of debt among energy customers. Due to the overall increase in the number of customers in arrears, gas and electricity domestic disconnections for non-payment of account (NPA) increased in 2012 (by 82% in gas and 1% in electricity). There continues to be stringent obligations on suppliers to make disconnections the “last resort” and all suppliers offer PAYG meters prior to taking steps to disconnect for reasons of non-payment in accordance with their customer protection obligations of their Supply Licences. In 2012, the CER extended out to the end of 2013 the requirement that suppliers can only pass on 50% of the charge for a disconnection or reconnection for reason of non-payment to a customer experiencing financial hardship.

While the revised Supplier Handbook was published and PAYG meters continued to be installed, disconnections remained high in 2012. The CER will undertake an audit of suppliers Codes of Practice on Disconnections with a particular focus on the process for PAYG installs and payment plans during 2013 and will continue to work with suppliers and other stakeholders to determine what further actions can be taken to reduce the level of disconnections and increase the uptake of PAYG meters.

Retail Prices

Energy prices are made up of a number of different components including network costs, wholesale costs, supply and retail costs and other factors that are driven by Government policy such as PSO levy, VAT rate and the carbon tax.

All suppliers are required to publish details of the tariff plans that are available to domestic customers. In 2012 Ireland’s first price comparison website was accredited, with a second accredited in the first half of 2013 (see later). These developments serve to provide customers with more clarity and transparency in relation to prices.

Overall, latest data shows that Irish electricity prices are higher than or broadly equal to the euro area average depending on consumption band examined. Conversely, gas prices are below the average. The data shows that electricity and gas prices have increased between 2011 and 2012. Prices increased across suppliers in October 2012.

Energy and supply costs comprise a large proportion of final price in Ireland in comparison to other EU countries. It is likely that a significant share of this is accounted for by fossil fuel costs.

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 2012 was published in July and some of the findings highlighted were:
- Satisfaction with the service provided by supply businesses was high for domestic and SME customers. This reflects the reliability of the core service provided over broader assessments of customer service or value. Satisfaction with the service provided by domestic electricity suppliers was 89%; domestic gas suppliers: 88%; SME electricity suppliers: 84% and SME gas suppliers: 86%.

- 5% of domestic electricity consumers and 3% of domestic gas consumers stated that they were now or were sometimes in arrears. This is lower than that reported by suppliers and indicates that there is a perception gap between consumers’ understanding of arrears and suppliers’ definitions of arrears. An additional 20% stated that they part pay their bill but typically have fully paid the bill before the next bill is issued.

- Switching rates during the previous twelve months for the domestic electricity market has slowed from 2011 but remains positive at 16% and similar to reported UK switching rates.

The CER conducted a similar survey in early 2013 and the findings were published in Q2 2013. The results were broadly similar to the 2012 survey. This is the fourth year the CER has undertaken a consumer survey and previous years have provided valuable insights and helped form CER consumer protection policy.

**Decision on Domestic Gas Market Deregulation**

Since the Non-Daily Metered (NDM) or domestic gas market was fully opened to competition July 2007 the level of competition has been increasing, with several suppliers now active in the market. In June 2011 the CER published a decision outlining the characteristics which would define a competitive market in the retail NDM gas sector and which would trigger the removal of ex ante revenue and price controls from Bord Gáis Energy. This document set out the “Roadmap” for deregulation of the NDM gas sector. Deregulation will enable Bord Gáis Energy to set its own prices for domestic gas customers, without prior CER approval.

In October of 2012 the CER published a follow on consultation document in order to examine whether the methodology and findings as set out in the Roadmap were still valid. The consultation closed in late 2012 and the CER fully considered the responses received. The CER published its decision on the criteria for deregulation in Q2 2013. The CER decided that, for the retail NDM gas market to be considered competitive and be deregulated, the following conditions all need to be met:

- At least three suppliers, of which two are non-Bord Gáis Energy suppliers;

- Each non-Bord Gáis Energy supplier market share is in excess of 10%; and,

- Customer switching rates in excess of 10% per year.

In addition, requirements as to Bord Gáis Energy’s market share were set. In this regard the CER decided that if Bord Gáis Energy chooses to rebrand its retail business prior to deregulation, the market share threshold for deregulation in the NDM retail gas sector will be set, as was the case in the retail electricity market, at 60%. If Bord Gáis Energy decides not to rebrand its retail operation, the market threshold for deregulation in the NDM retail gas market will be set at 55%.

**Website Accreditation**

In 2011 the CER published its decision on the accreditation framework for price comparison websites and in March of 2012 the CER announced that Bonkers.ie were the first such website to be accredited under the framework. The website, www.bonkers.ie is an online comparison and switching service which helps customers to compare a range of services including gas & electricity prices. 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. An accredited site will also be audited at least annually by the CER to ensure that it continues to provide a high standard of service.
The accreditation system provided by the CER gives energy customers the confidence to use price comparison websites, assisting them in comparing tariff offers and getting the best tariff deal. The CER expects to approve accreditation of at least one further website in 2013 and the service provided by these websites will help consumers benefit from competition in the supply of electricity.

ENERGY CUSTOMERS TEAM
Throughout 2012 the Energy Customers Team continued to deal with customers issues that arose with their suppliers and network operators. The focus remained on providing a high quality service to consumers in terms of answering queries and addressing complaints. For information on customer contacts in 2012, please see the Key Performance Indicators later in this report.

The CER is required to act as The Single Point of Contact (SPOC) to provide final customers with information on a range of areas including the statutory rights of final customers in relation to their engagements with energy undertakings, the roles of energy undertakings and their obligations to final customers, the CER’s dispute resolution service, measures taken to protect household customers and to help them reduce their energy consumption.

Due to the continued demands on the resources of the Energy Customers Team, dealing with an increasing volume of customer contacts, the development of the CER’s role as the Single Point of Contact (SPOC) for all energy customers has not been completed. The development of the workload management strategy in order to better manage the volume of contacts has been implemented and work on fully developing the SPOC functions in line with our responsibilities is ongoing.

Through the Energy Customers Team, the CER will continue to deal with issues customers may have with their supplier or network operator, at www.energycustomers.ie.

This includes:

- Addressing customer complaints and information requests as they are received, maintaining a focus on the quality of decisions issued to customers and reducing turnaround times;
- Increase customer awareness of the Commission’s statutory functions and services offered by the Energy Customers Team and through the Energycustomers.ie website.
- Ensuring that requirements for suppliers and network operators under SI 463 of 2011 to implement Universal Design are being met.

A significant development in terms of customer protection measures in the gas and electricity retail markets was the publication of the decision on the Supplier Handbook in June 2012. This Handbook set out the revised guidelines for suppliers regarding their Terms and Conditions of supply to household customers, Codes of Practice and Customer Charters. The guidelines require suppliers to put in place measures to ensure that customers are protected in several key areas such as marketing, disconnections and complaints. They also set out minimum requirements for Terms and Conditions of supply to household customers and they put in place requirements around the supply to vulnerable customers.

Following the publication of this decision, suppliers are required to develop a Customer Charter guaranteeing their Codes of Practice, setting out the services provided and service quality levels offered. The Customer Charter must also set out compensation and refund arrangements which apply if service quality levels are not met. The suppliers are also required to develop Codes of Practice, protecting customers in the areas of Marketing, Billing, Disconnection, Complaint Handling, Vulnerable Customers and Pay As You Go metering.

These Codes of Practice are an indication of a supplier’s commitment to providing a high level of
customer service and are required to have a financial penalty associated with them if they are not met. Suppliers will administer their Customer Charter and award customers the amount of payment set out in their Customer Charter where it is found that a guarantee has been broken.

In order to ensure that the Customer Charters and Codes of Practice adopted by suppliers meet all the criteria set out in the Handbook, each supplier must submit the documents to the CER for approval, in advance of publication. Compliance with the Customer Charter and Codes of Practice is a requirement of the supply licences issued in the gas and electricity markets. As part of the licence compliance function, the CER will monitor and audit suppliers adherence to the conditions set out in their licence, including the Customer Charters and Codes of Practice.

Key Task 7: Progress Smart Metering

The National Smart Metering Programme (NSMP) is a large and complex programme of work spanning several years and involving multiple and diverse stakeholders. The NSMP ultimately aims to successfully deliver a national rollout of electricity and gas smart metering and related initiatives (such as detailed billing, in-home displays and time of use tariffs) in an effective and efficient manner so that the benefits of smart metering can be realised by all stakeholders, particularly energy consumers. The scale of investment involved is estimated as being up to €1 billion, which makes it a major national energy infrastructure programme and because it necessitates a visit to every home and many businesses in the country it will be a very high profile programme.

The CER is responsible for overall delivery of the NSMP and has published its Smart Metering Decision Paper in July 2012 which outlines its rationale for proceeding with the NSMP and key parameters for the high level design and implementation of the NSMP. This Decision Paper will act as a key reference document for guiding the NSMP delivery during Phase 2 (Requirements Definition and Procurement) of the NSMP which began in 2012 and is due to continue until early 2014.

BACKGROUND

Smart meters (see example below) are the next generation of meters, which can replace existing electro-mechanical and diaphragm meters and offer a range of benefits for both the individual electricity and gas consumer and for the electricity and gas systems in general. The implementation of a smart metering system encompasses more than just metering. It is essentially a hybrid technology consisting of three high level layers; physical meters and associated devices,
communications layer covering data transport and communications network management, IT systems which manage the data, applications, and services.

In particular, smart meters can provide customers with more real-time energy consumption recording and information services, with the following benefits:

- Better Customer Information and Choice: Smart meters can record customers’ use of energy over short intervals, for example every 30 minutes. Suppliers can use this to provide customers with detailed information regarding their actual electricity and gas consumption and costs, through Smart Bills. In addition, an In-Home Display screen (see example below) can be used with smart meters, providing customers with more real-time information on their energy consumption. All of this information will empower customers to reduce their energy consumption and manage their bills better.

- Lower Energy Bills: By recording electricity use over short intervals, smart meters will allow suppliers to charge varying prices to electricity customers, in what is known as Time-of-Use Pricing. This reflects the fact that electricity costs more at peak demand times, i.e. from 5pm to 7pm on a weekday, when more power stations are needed, and less at off-peak times. By having lower electricity prices at off-peak times, smart meters will encourage customers to move electricity consumption to cheaper off-peak times, thereby reducing their electricity bills.

- Greater Energy Efficiency and Reduced Costs: By facilitating a reduction in energy usage, smart meters will help improve energy efficiency and lower Ireland’s CO2 emissions, which is good for the environment. Smart meters will also allow the network operator to be more efficient because it will not be necessary to visit customers’ premises to read the meter, resulting in cost savings which should be passed on to customers.

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 their costs and benefits, in order to inform decisions relating to the full rollout of an optimally designed universal National Smart Metering Programme. The key deliverables of Phase 1, namely the comprehensive electricity and gas smart metering trials findings reports and cost-benefit analyses reports were published by the CER during 2011.

The rollout of smart metering represents a major national infrastructure programme, potentially requiring an investment of up to €1 billion. The cost-benefit analyses show that the long-term benefits should clearly exceed these investment costs (by around €229 million net present value over a period of 20 years) and that there are likely to be further non-quantifiable benefits in terms of informed consumers, technological innovation, and synergies with other areas. Taking all this together, the case for proceeding with the full-scale rollout seems very clear, and this is strengthened further when relevant EU legislative requirements are considered.
SMART METERING IN 2012

A phased approach has been adopted by the CER for delivery of the NSMP. Phase 1 (Exploratory – Trials and Cost-benefit Analyses) was formally concluded with the publication of the Smart Metering Decision Paper in 4th July 2012 after which Phase 2 (Requirements Definition and Solution Procurement) was formally initiated and is currently in progress. Refer to Figure 1 which depicts this phased approach and the high level timelines currently envisaged for each of the remaining phases of the Programme. It should be noted that throughout the Programme implementation the CER will keep timelines under review and will endeavour to accelerate timelines where feasible.

During 2012 the CER completed its three key targets for the National Smart Metering Programme, which focused on formally concluding Phase 1 and initiating Phase 2 of the Programme:

- Published National Smart Metering Roll-out Decision Paper – July 2012.
- Formally Initiated Phase 2 - August 2012.
During the first half of 2012 the focus of the CER was on finalising the Smart Metering Decision Paper, which was published in July 2012. This paper outlines the decision by the CER, after taking account of responses received to its consultation on the topic, to proceed to the next phase (Phase 2) of the National Smart Metering Programme. The paper outlines that the decision is based on the positive results of the comprehensive electricity and gas smart metering trials and associated cost-benefit analyses published during 2011.

The paper also highlights that the decision is further underpinned by relevant European and national legislation which promote smart metering and outline specific related requirements. The Decision Paper further outlines the high level objectives, data requirements, design, functionality, implementation approach and timelines that are to be formally adopted by the National Smart Metering Programme as it proceeds to the next phase (Phase 2 - Requirements Definition and Solution Procurement) in delivering a national rollout of electricity and gas smart metering in Ireland to all residential consumers and small-to-medium enterprise (SME) consumers.

Since publication of the Smart Metering Decision Paper in July 2012 the CER worked with key stakeholders to formally mobilise and initiate Phase 2 of the NSMP, including the agreement of the Programme Initiation Documentation (PrID) in November 2012, incorporating the programme organisation, governance and approach, and development of associated detailed programme planning. Kicking off in August 2012 various information (options, strategy and impact assessment) papers have also been developed by different stakeholders as part of the first stage (High Level Design Stage 1) of Phase 2. These Information papers cover key regulatory policy subject matter areas, including the range of possible options for the electricity time of use tariffs policy and the electricity and gas smart prepayment policy, and technical reviews and strategies.

**PLANS FOR 2013**

In December 2012 the CER published its Smart Metering Information Paper to give an overview of the current position of the NSMP and its future plans, including details from the agreed Programme Initiation Document regarding the programme organisation, governance, approach and timelines for the NSMP. This Information Paper also gives an overview of the initial batch of completed deliverables from Phase 2 of the NSMP, namely a suite of papers which have been produced as part of the High Level Design Stage 1. These appended papers covered a range of areas including regulatory policy options, impact assessments and technical strategies and reviews. They are intended to provide an “information platform” for structuring the detailed NSMP stakeholder interactions that are planned for 2013 when the smart metering regulatory, functional and technical requirements will be elaborated upon and defined as part of the High Level Design Stage 2 (which began January 2013).
Key Task 8: Renewables Facilitation and Networks Development

BACKGROUND
Ireland has committed to a target of 40% of electricity consumption coming from renewable sources by 2020. This means that the electricity system needs to be “re-configured” to allow for high levels of wind generation. To achieve this target in a secure manner, the CER has been involved in a number of work areas across network development, system operation and connection policy. Throughout 2012, the CER worked with EirGrid and the electricity industry to progress DS3 including the monitoring and inputting on the TSO’s DS3 project (Delivering a Secure, Sustainable Power System), monitoring the delivery of key network reinforcements (GRID 25), monitoring the completion of the East-West interconnector and ongoing work on Gate 3 and renewable connections.

Achievement of this key task is a long-run objective. Work carried out in 2012 and for the years afterwards will all contribute to the overall objective of ensuring that renewable projects are facilitated, there is the required network to transport renewable energy from generation sites to demand centres and the system operational policies, tools and procedures are developed in order to operate the system successfully with high levels of wind.

GRID DEVELOPMENT
In order achieve the 2020 renewables targets, there is a need for the delivery by EirGrid and ESB of significant levels of new and upgraded electricity networks as well as the construction and connection of the new renewable generation (primarily wind) that will be required to meet the targets. The CER approved over €1 billion capital expenditure in the transmission networks for the PR3 period (2011 – 2015). Throughout 2012, the CER continued to monitor delivery by EirGrid and ESB Networks in order to ensure that the required infrastructure is built.

The CER was involved in monitoring the delivery of critical transmission network infrastructure over the course of 2012. Quarterly capital expenditure (capex) monitoring reports prepared by EirGrid and ESB Networks outlining progress on the delivery of all projects with a value of over €10 million were considered by the CER in 2012 and were published on the CER’s website. This ensures customers and the industry is fully aware of any delays or issues of concern on any of these critical pieces of infrastructure.

In addition, the CER monitored the completion of the new 500MW East-West interconnector to Great Britain. Please see key task 3 for more information on this.

Gate 3 Liaison Groups
To ensure full industry input into Gate 3 and the range of work in this area, the CER continued to chair the Liaison Group throughout 2012. A range of issues were discussed in the four meetings held in 2012 including Gate 3 constraints reports, curtailment, longstop dates, Firm Access Quantities and Grid development. The CER initiated a review of the Terms of Reference of the Liaison Group during 2012 with a view to maintaining and enhancing the effectiveness of the Group as an information sharing and communications forum.

Other
This high-level task cuts across a number of other work areas carried out by the RAs and the CER. Of key importance to renewables, two workstreams, DS3 and the treatment of tie-breaks in curtailment, were progressed in 2012 and these are detailed in Key Task 3 of this report.
In addition the CER made decisions on the allowed transmission and distribution revenues for 2013 and the allowed revenues for the East-West interconnector, both of which help facilitate renewables. The CER also published its annual decision on the PSO levy for 2012/13 – please see Key Task 3 in this report.

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 has agreed “Key Performance Indicators” (KPIs) for 2012 with the Department of Communications, Energy and Natural Resources. The KPIs were selected to be specific and measurable and many are related to the CER’s “8 key tasks” for 2012, described earlier in this document. The outcomes against these KPIs will be shown below. The CER may extend/modify these KPI’s for the future. This is with a view to achieving best regulatory practice in assessing the CER’s regulatory performance.

| RETAIL |
|-----------------|-----------------|
| Issue | KPI |
| In monitoring competition in the retail electricity and gas markets, one of the issues for the CER is customer switching rates between suppliers. | Total number of domestic (residential) electricity and gas customers who switched supplier, annually from 2009 to 2012. Please see below. |
| Number of electricity and gas customers who switched supplier, annually from 2009 to 2012, by customer type (residential, business and large energy user) and the resulting market shares of the suppliers. Please see below. |
### CUSTOMER SWITCHES - ELECTRICITY

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Small Business</th>
<th>Medium Business</th>
<th>LEU</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>410,470</td>
<td>39,021</td>
<td>5,206</td>
<td>267</td>
<td>454,964</td>
</tr>
<tr>
<td>2010</td>
<td>431,409</td>
<td>33,455</td>
<td>3,028</td>
<td>286</td>
<td>468,178</td>
</tr>
<tr>
<td>2012</td>
<td>215,196</td>
<td>33,358</td>
<td>3,271</td>
<td>231</td>
<td>252,056</td>
</tr>
</tbody>
</table>

### CUSTOMER SWITCHES - GAS

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>IC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2,400</td>
<td>6,093</td>
<td>8,493</td>
</tr>
<tr>
<td>2010</td>
<td>90,036</td>
<td>3,901</td>
<td>93,937</td>
</tr>
<tr>
<td>2011</td>
<td>108,938</td>
<td>4,342</td>
<td>113,280</td>
</tr>
<tr>
<td>2012</td>
<td>106,712</td>
<td>3,867</td>
<td>110,579</td>
</tr>
</tbody>
</table>

### CUSTOMER PROTECTION

<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, by year 2009 to 2012. Please see below.</td>
</tr>
<tr>
<td>To monitor customer usage and awareness of the energycustomers.ie service.</td>
<td>Overall customer contacts including hits on <a href="http://www.energycustomers.ie">www.energycustomers.ie</a> website by year 2009 to 2012. Please see below.</td>
</tr>
</tbody>
</table>

Please note that these KPI’s show specific factual outcomes against particular measurable – the “8 key tasks” discussed earlier provide general information on how the CER performed in its most strategic tasks for 2012, which in turn helped the CER to achieve its overall mission.
Awareness of the role of the Energy Customers Team has increased in recent years and 2012 saw a large increase in the number of visits to our website – www.energycustomers.ie. The graph below shows the trend over the last few years and as can be seen the number of visits to the website increased by almost 66% in 2012, compared to the previous year.

In 2011 the number of customer contacts jumped by 48% compared to 2010, up to a total of 2,770. The increase continued in 2012, with almost 300 additional contacts resulting in an increase of 11% compared to the previous. The total number of customers availing of the service in 2012 was 3,067.

As with the previous year’s increase, there is not one significant event or development driving this increase, rather it is attributable to a wider recognition of the functions of the CER and customers becoming more aware of energy issues. The graph below illustrates the increase in the volume of customer contacts that the Energy Customers Team has experienced over the past four years.

In addition to increased volumes of website visits, the Energy Customers Team has seen a significant increase in the number of customer contacts over the past few years. Customer contacts include any contact made by consumers, whether by phone, email or letter.

As with the previous year’s increase, there is not one significant event or development driving this increase, rather it is attributable to a wider recognition of the functions of the CER and customers becoming more aware of energy issues. The graph below illustrates the increase in the volume of customer contacts that the Energy Customers Team has experienced over the past four years.

Year on Year Change in Volume of Customer Contacts
The graph below provides breakdown of which supplier or network operator customers were contacting the Energy Customers Team in relation to. As can be seen the larger supplier (Airtricity, BGE and Electric Ireland) accounted for the majority of customer contacts, but increasingly we are receiving contacts in relation to the other suppliers in the market, reflecting the increase in competition in the domestic markets.
### Breakdown of Customer Contacts in 2012

- **Not Applicable**: 16.4%
- **Airtricity**: 27.2%
- **ESB Networks**: 4.9%
- **Bord Gáis Energy**: 23.4%
- **Electric Ireland**: 22.9%
- **Flogas**: 1.6%
- **Energia**: 1.9%
- **BGN**: 1.2%
- **PrePayPower**: 0.3%
- **Vayu**: 0.2%

The “Not Applicable” contacts are those where the customer did not state their supplier or network operator or may have contacted the ECT with a general query that was 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 2012.

### 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>The number of registered gas installers has increased from 2,667 to 2,733 to 2,843 to 2,969, for the years 2009, 2010, 2011 and 2012 respectively. The number of registered electrical contractors has changed from 5,006 to 4,561 to 4,264 to 4,022 for the years 2009, 2010, 2011 and 2012 respectively.</td>
</tr>
<tr>
<td>Issue</td>
<td>KPI</td>
</tr>
<tr>
<td>---------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<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>Number of Gate 3 Liaison Group meetings held during year: Four meetings held.</td>
</tr>
<tr>
<td></td>
<td>Publication of regular updates on Gate 3 offers on CER website: After each meeting.</td>
</tr>
<tr>
<td></td>
<td>Monitor issuance of Gate 3 constraint reports by EirGrid in line with agreed programme plan, post completion of SEM Committee Tie-Breaks in Dispatch decision: Constraint reports issuing in 2013.</td>
</tr>
<tr>
<td></td>
<td>To commence consideration of connection policy post Gate 3 in 2012, ensuring appropriate policy in place once full uptake of Gate 3 is determined: Delayed until update of gate 3 is known.</td>
</tr>
<tr>
<td>To increase the amount of renewable electricity generation in Ireland, moving towards the 40% target for 2020.</td>
<td>Amount of renewable generation connected to the network, by year 2009 to 2012</td>
</tr>
<tr>
<td></td>
<td>MW Estimates - source EirGrid</td>
</tr>
<tr>
<td></td>
<td>2009: 1,558 MW</td>
</tr>
<tr>
<td></td>
<td>2010: 1,668 MW</td>
</tr>
<tr>
<td></td>
<td>2011: 1,902 MW</td>
</tr>
<tr>
<td></td>
<td>2012: 2,031 MW (provisional)</td>
</tr>
<tr>
<td></td>
<td>Percentage of electricity consumption from renewables, by year 2009 to 2012:</td>
</tr>
<tr>
<td></td>
<td>% RoI Renewable Consumption: SEAI “Normalised”</td>
</tr>
<tr>
<td></td>
<td>2012: 19.5% (provisional)</td>
</tr>
<tr>
<td></td>
<td>2011: 17.6%</td>
</tr>
<tr>
<td></td>
<td>2010: 14.9%</td>
</tr>
<tr>
<td></td>
<td>2009: 13.7%</td>
</tr>
<tr>
<td></td>
<td>% RoI Renewable Consumption: SEAI “Non-Normalised”</td>
</tr>
<tr>
<td></td>
<td>2012: 18.9% (provisional)</td>
</tr>
<tr>
<td></td>
<td>2011: 19.4%</td>
</tr>
<tr>
<td></td>
<td>2010: 12.9%</td>
</tr>
<tr>
<td></td>
<td>2009: 14.3%</td>
</tr>
</tbody>
</table>
### RENEWABLES

<table>
<thead>
<tr>
<th>Issue</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>To work with the System Operators, north and south to progress the DS3 programme aimed at ensuring continued security of supply and system operation as levels of wind on the system increase.</td>
<td>Ensure publication of full DS3 programme plans by late 2011: Completed.</td>
</tr>
<tr>
<td></td>
<td>Monitor progress on DS3 programme plans throughout 2012: Monthly meetings and regular updates with TSOs.</td>
</tr>
<tr>
<td></td>
<td>Ensure SOs’ progress System Services Workstream with consultation paper published in Q1 2012: Three consultations over the course of 2012.</td>
</tr>
<tr>
<td>To monitor progress by EirGrid and ESB Networks on the delivery of agreed network capex programme in PR3</td>
<td>Publication of quarterly capex monitoring reports.</td>
</tr>
<tr>
<td></td>
<td>Holding of 2 meetings over the year with ESB Networks and EirGrid to discuss capex delivery.</td>
</tr>
</tbody>
</table>

### SMART METERING

<table>
<thead>
<tr>
<th>Issue</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initiate Phase 2</td>
<td>Finalise Programme Governance structure &amp; Implementation Plan - February 2012. Finalised November 2012.</td>
</tr>
</tbody>
</table>
Financial Statements

COMMISSION FOR ENERGY REGULATION
FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2012

Commission Members
Dermot Nolan, Chairperson
Garrett Blaney, Commissioner

Bank
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Solicitor
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CER Address
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Tallaght
Dublin 24
Ireland

Auditors
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Treasury Block,
Dublin Castle,
Dublin 2,
Ireland

FINANCIAL STATEMENTS
For the year ended 31 December 2012

CONTENTS

60 // Report of the Commission
61 // Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas
63 // Statement of Members’ Responsibilities
63 // Statement on Internal Financial Control
65 // Statement of Accounting Policies
67 // Income and Expenditure Account
68 // Statement of Total Recognised Gains and Losses
69 // Balance Sheet
70 // Cash Flow Statement
71 // Notes to the Financial Statements
Report of the Commission

For the year ended 31 December 2012
I have pleasure in presenting the audited financial statements of the Commission for Energy Regulation for the year ended 31 December 2012.

FINANCIAL YEAR
The accounting period consists of twelve months to 31 December 2012.

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.

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 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 Public Expenditure and Reform. 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, 2012 are Mr. Tom O’Higgins (Chairperson – external), Commissioner Garrett Blaney, Dr. Paul McGowan and Mr. Tom Mason (external). The Committee’s main functions are to advise on how 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 published a decision on the High Level Design of the Petroleum Safety Framework in 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. The final decision with respect to the administration of the petroleum safety levy is set out in CER Decision Paper CER/13008.
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 2012, the Audit Committee met on four occasions and carried out the following functions:

- The Committee reviewed and approved for submission to the Commission Internal Audit Reports on Internal Financial Control, Carbon Revenue Levy Financial Administration, Review of Project Management, a Review of IT General Controls and a Follow-up review on recommendations per 2011 reports;
- The Committee monitored policy and practice enhancement work by the Commission in relation to IT; and
- The Committee liaised regularly with management in relation to the conduct of risk management and mitigation work within the Commission.

Dermot Nolan
On behalf of the Commission

Comptroller and Auditor General Report for presentation to The Houses Of The Oireachtas

COMMISSION FOR ENERGY REGULATION
I have audited the financial statements of the Commission for Energy Regulation for the year ended 31 December 2012 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 statements have been prepared in the form prescribed in paragraph 25 of the Schedule to the Electricity Regulation Act 1999 as amended by Section 22 of the Gas (Interim) (Regulation) Act 2002, and in accordance with 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 the Commission’s 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 2012 and of its income and expenditure for 2012.

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 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.

Patricia Sheehan
For and on behalf of the Comptroller and Auditor General

30 November 2013
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 Public Expenditure and Reform 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.

Dermot 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 2012.

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.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the rates of exchange at the Balance Sheet date.

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.

The pension charge in the Income and Expenditure account comprises the current service cost plus the difference between the expected return on scheme assets and the interest cost of scheme liabilities.

Actuarial gains and losses arising from changes in actuarial assumptions and from experience surpluses and deficits are recognised in the statement of total recognised gains and losses for the year in which they occur.

Pension scheme assets are measured at fair value. Pension scheme liabilities are measured on an actuarial basis using the projected unit’s method. An excess of scheme liabilities over scheme assets is presented on the Balance Sheet as a liability. The Pension Reserve represents the funding deficit on the defined benefit pension scheme.

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.

In drawing up the separate accounts of the Commission, a set of accounting procedures for the allocation of assets, liabilities, income and expenditure is adhered to:

Revenues, expenses and capital expenditure directly incurred by each sector are recorded in the separate accounts of the electricity, gas and petroleum sectors. Shared costs are allocated to each sector in proportion to the staff numbers engaged in the relevant sector.

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 2012

<table>
<thead>
<tr>
<th></th>
<th>2012 Electricity</th>
<th>2012 Gas</th>
<th>2012 Petroleum</th>
<th>2012 Total</th>
<th>2011 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Levy</td>
<td>2</td>
<td>6,833,704</td>
<td>3,260,796</td>
<td>0</td>
<td>10,094,500</td>
</tr>
<tr>
<td>Licensing Fees</td>
<td></td>
<td>13,675</td>
<td>0</td>
<td>0</td>
<td>13,675</td>
</tr>
<tr>
<td>Other Income</td>
<td>2</td>
<td>35,433</td>
<td>20,003</td>
<td>0</td>
<td>55,436</td>
</tr>
<tr>
<td><strong>Gross Income</strong></td>
<td></td>
<td>6,882,812</td>
<td>3,280,799</td>
<td>0</td>
<td>10,163,611</td>
</tr>
<tr>
<td>Transfer from/(to) capital account</td>
<td>7</td>
<td>148,954</td>
<td>64,653 (2,355)</td>
<td>211,252</td>
<td>201,078</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td></td>
<td>7,031,766</td>
<td>3,345,452 (2,355)</td>
<td>10,374,863</td>
<td>9,288,636</td>
</tr>
<tr>
<td><strong>EXPENDITURE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Wages &amp; Salaries</td>
<td>3</td>
<td>2,845,207</td>
<td>1,894,073</td>
<td>331,545</td>
<td>5,070,825</td>
</tr>
<tr>
<td>Pension Costs</td>
<td>9(a)</td>
<td>399,410</td>
<td>265,840</td>
<td>47,750</td>
<td>713,000</td>
</tr>
<tr>
<td>Recruitment and Training</td>
<td></td>
<td>45,728</td>
<td>32,973</td>
<td>77,846</td>
<td>156,547</td>
</tr>
<tr>
<td>Travel &amp; Subsistence</td>
<td></td>
<td>71,502</td>
<td>50,314</td>
<td>12,467</td>
<td>134,283</td>
</tr>
<tr>
<td>Office Accommodation Expenses</td>
<td></td>
<td>497,391</td>
<td>320,076</td>
<td>56,992</td>
<td>874,459</td>
</tr>
<tr>
<td>IT &amp; Communications</td>
<td></td>
<td>207,214</td>
<td>120,477</td>
<td>20,789</td>
<td>348,480</td>
</tr>
<tr>
<td>Office Service Costs</td>
<td></td>
<td>15,169</td>
<td>14,632</td>
<td>5,675</td>
<td>35,476</td>
</tr>
<tr>
<td>Insurance Premiums</td>
<td></td>
<td>58,920</td>
<td>38,041</td>
<td>6,692</td>
<td>103,653</td>
</tr>
<tr>
<td>Advertising</td>
<td></td>
<td>49,899</td>
<td>13,035</td>
<td>12,391</td>
<td>75,325</td>
</tr>
<tr>
<td>Professional &amp; Consultancy Fees</td>
<td>4</td>
<td>765,727</td>
<td>1,017,592</td>
<td>909,156</td>
<td>2,692,475</td>
</tr>
<tr>
<td>SEM Committee Fees</td>
<td></td>
<td>91,447</td>
<td>0</td>
<td>0</td>
<td>91,447</td>
</tr>
<tr>
<td>Audit Fees</td>
<td></td>
<td>6,948</td>
<td>4,591</td>
<td>869</td>
<td>12,408</td>
</tr>
<tr>
<td>Internal Audit Fees</td>
<td></td>
<td>17,207</td>
<td>11,548</td>
<td>2,195</td>
<td>30,950</td>
</tr>
<tr>
<td>Other Expenses</td>
<td></td>
<td>39,278</td>
<td>24,196</td>
<td>4,066</td>
<td>67,540</td>
</tr>
<tr>
<td>Interest Payable</td>
<td></td>
<td>0</td>
<td>0</td>
<td>127,434</td>
<td>127,434</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td>176,680</td>
<td>83,381</td>
<td>477</td>
<td>260,538</td>
</tr>
<tr>
<td><strong>Surplus/ (Deficit) for the year</strong></td>
<td></td>
<td>5,287,727</td>
<td>3,890,769</td>
<td>1,616,344</td>
<td>10,794,840</td>
</tr>
<tr>
<td>Surplus brought forward</td>
<td></td>
<td>1,744,039</td>
<td>(545,317)</td>
<td>(1,618,699)</td>
<td>(419,977)</td>
</tr>
<tr>
<td>Pension Cost reserve</td>
<td></td>
<td>882,418</td>
<td>1,614,303</td>
<td>(1,590,440)</td>
<td>906,281</td>
</tr>
<tr>
<td>Operating Surplus/(Deficit) at 31 December</td>
<td>167,767</td>
<td>(111,663)</td>
<td>(20,056)</td>
<td>(299,486)</td>
<td>(471,416)</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
Statement of Total Recognised Gains and Losses for the year ended 31 December 2012

<table>
<thead>
<tr>
<th>Description</th>
<th>2012</th>
<th>2011</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></td>
<td></td>
</tr>
<tr>
<td>Experience gains/(losses) on pension scheme liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in assumptions underlying the present value of pension scheme liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in for prior service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial Gain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Recognised Losses relating to the Financial Year</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 2012

<table>
<thead>
<tr>
<th></th>
<th>2012 EURO</th>
<th>2011 EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FIXED ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible Assets</td>
<td>2,362,483</td>
<td>2,573,736</td>
</tr>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>933,858</td>
<td>379,137</td>
</tr>
<tr>
<td>Cash at Bank and in hand</td>
<td>400,345</td>
<td>148,706</td>
</tr>
<tr>
<td>Short Term Deposits</td>
<td>3,784,110</td>
<td>2,913,133</td>
</tr>
<tr>
<td><strong>CREDITORS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Amount falling due within one year)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors</td>
<td>(1,131,495)</td>
<td>(934,695)</td>
</tr>
<tr>
<td>Short Term Loan</td>
<td>(3,800,00)</td>
<td>(1,600,000)</td>
</tr>
<tr>
<td><strong>Net Current Assets excluding pension liability</strong></td>
<td>186,818</td>
<td>906,281</td>
</tr>
<tr>
<td><strong>Pension Liability</strong></td>
<td>(7,333,000)</td>
<td>(3,470,000)</td>
</tr>
<tr>
<td><strong>Net Current Assets including pension liability</strong></td>
<td>(7,146,182)</td>
<td>(2,563,719)</td>
</tr>
<tr>
<td><strong>Total Assets Less Current Liabilities</strong></td>
<td>(4,783,699)</td>
<td>10,017</td>
</tr>
<tr>
<td><strong>Financed by</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Account</td>
<td>2,362,483</td>
<td>2,573,736</td>
</tr>
<tr>
<td>Income &amp; Expenditure Account</td>
<td>186,818</td>
<td>906,281</td>
</tr>
<tr>
<td>Pension Reserve</td>
<td>(7,333,000)</td>
<td>(3,470,000)</td>
</tr>
<tr>
<td></td>
<td>(4,783,699)</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 2012

<table>
<thead>
<tr>
<th>Reconciliation of operating surplus to net cash inflow from operating activities</th>
<th>2012 EURO</th>
<th>2011 EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit on Income and Expenditure</td>
<td>(419,977)</td>
<td>(466,958)</td>
</tr>
<tr>
<td>Difference between Pension Costs and Employers Contribution</td>
<td>(299,486)</td>
<td>(471,416)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>260,538</td>
<td>258,955</td>
</tr>
<tr>
<td>Bank Interest</td>
<td>(50,008)</td>
<td>(20,531)</td>
</tr>
<tr>
<td>Transfer from Capital Account</td>
<td>(211,252)</td>
<td>(201,078)</td>
</tr>
<tr>
<td>Decrease/ (Increase) in Debtors</td>
<td>(554,722)</td>
<td>201,958</td>
</tr>
<tr>
<td>Increase in Creditors</td>
<td>196,801</td>
<td>(54,363)</td>
</tr>
<tr>
<td>Loss on Disposal of fixed assets</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net Cash Inflow from Operating Activities</strong></td>
<td>(1,078,106)</td>
<td>(753,433)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flow Statements</th>
<th>2012 EURO</th>
<th>2011 EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash inflow from operating activities</td>
<td>(1,078,106)</td>
<td>(753,433)</td>
</tr>
<tr>
<td>Returns on Investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- bank interest</td>
<td>50,008</td>
<td>20,531</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- purchase of fixed assets</td>
<td>(49,285)</td>
<td>(57,878)</td>
</tr>
<tr>
<td>Management of Liquid Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- short term deposits</td>
<td>(870,977)</td>
<td>(1,284,938)</td>
</tr>
<tr>
<td>Financing - Increase in Debt</td>
<td>2,200,000</td>
<td>1,100,000</td>
</tr>
<tr>
<td><strong>Increase / (Decrease) in Cash Balances</strong></td>
<td>251,640</td>
<td>975,718</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reconciliation of net cash flow to movement in Net Funds</th>
<th>2012 EURO</th>
<th>2011 EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase / (Decrease) in cash in hand in the period</td>
<td>251,640</td>
<td>(975,718)</td>
</tr>
<tr>
<td>Cash used to increase liquid resources</td>
<td>870,977</td>
<td>1,284,938</td>
</tr>
<tr>
<td>Cash (Inflow) / Outflow from increase / reduction in Debt</td>
<td>(2,200,000)</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Change in Net Funds</td>
<td>(1,077,383)</td>
<td>(790,780)</td>
</tr>
<tr>
<td>Opening in New Funds</td>
<td>1,461,838</td>
<td>2,252,618</td>
</tr>
<tr>
<td><strong>Closing Net Funds</strong></td>
<td>384,455</td>
<td>1,461,838</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 for the year ended 31 December 2012

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 Public Expenditure and Reform 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.

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:

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.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Electricity 2012</th>
<th>Gas 2012</th>
<th>Total 2012</th>
<th>Electricity 2011</th>
<th>Total 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation</td>
<td>1,506,616</td>
<td>0</td>
<td>1,506,616</td>
<td>1,447,982</td>
<td></td>
</tr>
<tr>
<td>Transmission</td>
<td>1,716,904</td>
<td>1,086,932</td>
<td>2,803,836</td>
<td>2,560,552</td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td>1,957,272</td>
<td>1,086,932</td>
<td>3,044,204</td>
<td>2,560,552</td>
<td></td>
</tr>
<tr>
<td>Supply</td>
<td>1,652,912</td>
<td>0</td>
<td>1,652,912</td>
<td>1,540,713</td>
<td></td>
</tr>
<tr>
<td>Shipping</td>
<td>0</td>
<td>1,086,932</td>
<td>1,086,932</td>
<td>934,776</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,833,704</td>
<td>3,260,796</td>
<td>10,094,500</td>
<td>9,044,575</td>
<td></td>
</tr>
</tbody>
</table>

Other Income

<table>
<thead>
<tr>
<th>Activity</th>
<th>2012</th>
<th>2012</th>
<th>2011</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Interest</td>
<td>30,005</td>
<td>20,003</td>
<td>50,008</td>
<td>20,531</td>
</tr>
<tr>
<td>Other</td>
<td>5,428</td>
<td>0</td>
<td>5,428</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>35,433</td>
<td>20,003</td>
<td>55,436</td>
<td>20,546</td>
</tr>
</tbody>
</table>
3. EMPLOYEES AND REMUNERATION

(a) Employees costs during the year:

<table>
<thead>
<tr>
<th></th>
<th>2012 ELECTRICITY EURO</th>
<th>2012 GAS EURO</th>
<th>2012 PETROLEUM EURO</th>
<th>2012 TOTAL EURO</th>
<th>2011 TOTAL EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>2,604,920</td>
<td>1,727,876</td>
<td>301,722</td>
<td>4,634,518</td>
<td>4,584,766</td>
</tr>
<tr>
<td>Employer PRSI</td>
<td>240,287</td>
<td>166,197</td>
<td>29,823</td>
<td>436,307</td>
<td>430,202</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,845,207</strong></td>
<td><strong>1,894,073</strong></td>
<td><strong>331,545</strong></td>
<td><strong>5,070,825</strong></td>
<td><strong>5,014,968</strong></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>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>39</td>
<td>69</td>
</tr>
<tr>
<td>Gas</td>
<td>25</td>
<td>67</td>
</tr>
<tr>
<td>Petroleum</td>
<td>5</td>
<td>69</td>
</tr>
</tbody>
</table>

The Commission operate a performance related remuneration scheme which was approved by the Department of Public Expenditure and Reform and the Department of Communications, Energy and Natural Resources. Of the total salary costs during 2012 €260,043 (2011: €219,380) represents the payments to staff associated with the provisions of the performance related remuneration scheme.

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

During 2012 €337,242 (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’ Remuneration

<table>
<thead>
<tr>
<th></th>
<th>2012 EXPENSES EURO</th>
<th>2012 TOTAL EURO</th>
<th>2011 EXPENSES EURO</th>
<th>2011 TOTAL EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael G. Tutty (Retired 2011)</td>
<td>0</td>
<td>0</td>
<td>2,228</td>
<td>2,228</td>
</tr>
<tr>
<td>Dermot Nolan, Chairperson</td>
<td>6,269</td>
<td>6,269</td>
<td>7,097</td>
<td>7,097</td>
</tr>
<tr>
<td>Garrett Blaney</td>
<td>5,981</td>
<td>5,981</td>
<td>7,485</td>
<td>7,485</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,250</strong></td>
<td><strong>12,250</strong></td>
<td><strong>16,810</strong></td>
<td><strong>16,810</strong></td>
</tr>
</tbody>
</table>

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 2012, the Commission procured services for each activity of electricity, gas and safety regulation which includes petroleum safety as follows:

<table>
<thead>
<tr>
<th>Activity</th>
<th>ELECTRICITY EURO</th>
<th>GAS EURO</th>
<th>PETROLEUM EURO</th>
<th>TOTAL EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical: Consultancy Services</td>
<td>331,675</td>
<td>9,109</td>
<td>208,194</td>
<td>548,978</td>
</tr>
<tr>
<td>Technical: Safety Consultancy Fees</td>
<td>28,315</td>
<td>165,977</td>
<td>578,300</td>
<td>772,592</td>
</tr>
<tr>
<td>Economic: Consultancy Services</td>
<td>207,407</td>
<td>362,988</td>
<td>0</td>
<td>570,395</td>
</tr>
<tr>
<td>Technical: Consultancy Services</td>
<td>0</td>
<td>99,238</td>
<td>0</td>
<td>99,238</td>
</tr>
<tr>
<td>Professional Fees plus Market Research</td>
<td>110,565</td>
<td>57,877</td>
<td>4,639</td>
<td>173,081</td>
</tr>
<tr>
<td>Legal including Judicial Review Legal Fees</td>
<td>87,765</td>
<td>322,403</td>
<td>118,023</td>
<td>528,191</td>
</tr>
<tr>
<td></td>
<td><strong>765,727</strong></td>
<td><strong>1,017,592</strong></td>
<td><strong>909,156</strong></td>
<td><strong>2,692,475</strong></td>
</tr>
</tbody>
</table>

5. TANGIBLE ASSETS

<table>
<thead>
<tr>
<th></th>
<th>LEASEHOLD IMPROVEMENT</th>
<th>FIXTURES &amp; FITTINGS</th>
<th>OFFICE EQUIPMENT</th>
<th>COMPUTER HARDWARE</th>
<th>COMPUTER SOFTWARE</th>
<th>TOTAL</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 11</td>
<td>2,960,977</td>
<td>639,171</td>
<td>219,748</td>
<td>441,927</td>
<td>305,741</td>
<td>4,567,564</td>
</tr>
<tr>
<td>Additions</td>
<td>0</td>
<td>0</td>
<td>2,230</td>
<td>40,475</td>
<td>6,580</td>
<td>49,285</td>
</tr>
<tr>
<td>At 31 December 12</td>
<td>2,960,977</td>
<td>639,171</td>
<td>221,978</td>
<td>482,402</td>
<td>312,321</td>
<td>4,616,849</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 11</td>
<td>620,965</td>
<td>509,129</td>
<td>178,893</td>
<td>382,087</td>
<td>302,754</td>
<td>1,993,828</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>118,439</td>
<td>80,800</td>
<td>23,862</td>
<td>35,427</td>
<td>2,010</td>
<td>260,538</td>
</tr>
<tr>
<td>At 31 December 12</td>
<td>739,404</td>
<td>589,929</td>
<td>202,755</td>
<td>417,514</td>
<td>304,764</td>
<td>2,254,366</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 11</td>
<td>2,221,573</td>
<td>49,242</td>
<td>19,223</td>
<td>64,888</td>
<td>7,557</td>
<td>2,362,483</td>
</tr>
<tr>
<td>At 31 December 12</td>
<td>2,340,012</td>
<td>130,042</td>
<td>40,854</td>
<td>59,841</td>
<td>2,987</td>
<td>2,573,736</td>
</tr>
</tbody>
</table>
6. DEBTORS (DUE WITHIN ONE YEAR)

<table>
<thead>
<tr>
<th></th>
<th>2012 EURO</th>
<th>2011 EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy – Gas</td>
<td>564,513</td>
<td>4,081</td>
</tr>
<tr>
<td>Levy – Electricity</td>
<td>135,175</td>
<td>302,522</td>
</tr>
<tr>
<td>SEM Costs due from NIAUR</td>
<td>65,032</td>
<td>14,178</td>
</tr>
<tr>
<td>Other</td>
<td>43,337</td>
<td>15,931</td>
</tr>
<tr>
<td>Prepayments</td>
<td>125,801</td>
<td>42,425</td>
</tr>
<tr>
<td></td>
<td><strong>933,858</strong></td>
<td><strong>379,137</strong></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>2012 EURO</th>
<th>2011 EURO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Creditors</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Accural – Rent</td>
<td>0</td>
<td>34,328</td>
</tr>
<tr>
<td>Accural – Consultancy and Professional fees</td>
<td>328,708</td>
<td>206,170</td>
</tr>
<tr>
<td>Accural – Legal Judicial Review</td>
<td>239,611</td>
<td>111,573</td>
</tr>
<tr>
<td>Accural – Other Creditors</td>
<td>184,666</td>
<td>182,868</td>
</tr>
<tr>
<td>PAYE / PRSI</td>
<td>283,191</td>
<td>275,456</td>
</tr>
<tr>
<td>Payroll</td>
<td>(1,945)</td>
<td>(1,188)</td>
</tr>
<tr>
<td>Professional Service Withholding Tax</td>
<td>97,264</td>
<td>125,388</td>
</tr>
<tr>
<td></td>
<td><strong>1,131,495</strong></td>
<td><strong>934,695</strong></td>
</tr>
</tbody>
</table>

8. CAPITAL ACCOUNT

<table>
<thead>
<tr>
<th></th>
<th>2012 GAS</th>
<th>2012 ELECTRICITY</th>
<th>2012 PETROLEUM</th>
<th>2012 TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>599,163</td>
<td>1,974,573</td>
<td>0</td>
<td>2,573,736</td>
</tr>
<tr>
<td>Fund allocated to acquire fixed assets</td>
<td>18,727</td>
<td>27,725</td>
<td>2,833</td>
<td>49,285</td>
</tr>
<tr>
<td>Amount amortised in line with asset depreciation</td>
<td>(83,380)</td>
<td>(176,679)</td>
<td>(478)</td>
<td>(260,537)</td>
</tr>
<tr>
<td>Net amount of transfer</td>
<td>(64,653)</td>
<td>(148,954)</td>
<td>2,355</td>
<td>(211,262)</td>
</tr>
<tr>
<td></td>
<td><strong>534,510</strong></td>
<td><strong>1,825,619</strong></td>
<td><strong>2,355</strong></td>
<td><strong>2,362,484</strong></td>
</tr>
</tbody>
</table>
9. PENSIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>2012 €'000</th>
<th>2011 €'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Pension Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current services costs</td>
<td>828</td>
<td>755</td>
</tr>
<tr>
<td>Interest Cost</td>
<td>642</td>
<td>562</td>
</tr>
<tr>
<td>Expected return on scheme Assets</td>
<td>(530)</td>
<td>(577)</td>
</tr>
<tr>
<td>Less: Employees Contributions</td>
<td>(227)</td>
<td>(230)</td>
</tr>
<tr>
<td>Total</td>
<td>713</td>
<td>510</td>
</tr>
<tr>
<td>(b) Net Pension Liability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Present value of funded obligations</td>
<td>18,307</td>
<td>12,071</td>
</tr>
<tr>
<td>Fair value of scheme assets</td>
<td>(10,974)</td>
<td>(8,601)</td>
</tr>
<tr>
<td>Net Liability</td>
<td>7,333</td>
<td>3,470</td>
</tr>
<tr>
<td>(bii) Present Value of Scheme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations at beginning of year</td>
<td>12,071</td>
<td>10,040</td>
</tr>
<tr>
<td>Current services costs</td>
<td>828</td>
<td>755</td>
</tr>
<tr>
<td>Interest Cost</td>
<td>642</td>
<td>562</td>
</tr>
<tr>
<td>Actuarial Loss</td>
<td>4,902</td>
<td>960</td>
</tr>
<tr>
<td>Benefits Paid</td>
<td>(136)</td>
<td>(246)</td>
</tr>
<tr>
<td>Present Value of Scheme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligations at the end of year</td>
<td>18,307</td>
<td>12,071</td>
</tr>
<tr>
<td>(biii) Change in scheme assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair Value of Scheme Assets at beginning of year</td>
<td>8,601</td>
<td>8,126</td>
</tr>
<tr>
<td>Expected return on Scheme Assets</td>
<td>530</td>
<td>577</td>
</tr>
<tr>
<td>Actuarial Gain / (Loss)</td>
<td>740</td>
<td>(1,067)</td>
</tr>
<tr>
<td>Employer Contributions</td>
<td>1,012</td>
<td>981</td>
</tr>
<tr>
<td>Members’ Contributions</td>
<td>227</td>
<td>230</td>
</tr>
<tr>
<td>Transfers in for prior service</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Benefits from Scheme</td>
<td>(136)</td>
<td>(246)</td>
</tr>
<tr>
<td>Fair Value of Scheme Assets at end of year</td>
<td>10,974</td>
<td>8,601</td>
</tr>
</tbody>
</table>

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 arrangement 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

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Rates</td>
<td>3.75%</td>
<td>5.00%</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>Year of Attaining age 65</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life expectancy - male</td>
<td>23.3</td>
<td>25.9</td>
</tr>
<tr>
<td>Life expectancy - female</td>
<td>24.7</td>
<td>26.9</td>
</tr>
</tbody>
</table>

The Scheme assets at the year-end comprised:

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>64.0%</td>
<td>70.82%</td>
</tr>
<tr>
<td>Bonds</td>
<td>28.7%</td>
<td>18.79%</td>
</tr>
<tr>
<td>Property</td>
<td>3.1%</td>
<td>4.49%</td>
</tr>
<tr>
<td>Other</td>
<td>4.2%</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Actual return less expected return on scheme assets

<table>
<thead>
<tr>
<th></th>
<th>2012 €’000</th>
<th>2011 €’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Return</td>
<td>1,270</td>
<td>(490)</td>
</tr>
<tr>
<td>Less: Expected return</td>
<td>(530)</td>
<td>(577)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>740</strong></td>
<td><strong>1,067</strong></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 5.36% assumption (after allowance for pension levy of 0.6% in 2012).

<table>
<thead>
<tr>
<th>(d) History of defined benefit obligations, assets and experience gain and losses</th>
<th>2012 €'000</th>
<th>2011 €'000</th>
<th>2010 €'000</th>
<th>2009 €'000</th>
<th>2008 €'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit obligations</td>
<td>18,307</td>
<td>12,071</td>
<td>10,040</td>
<td>9,594</td>
<td>8,326</td>
</tr>
<tr>
<td>Fair value of Scheme Assets</td>
<td>10,974</td>
<td>8,601</td>
<td>8,126</td>
<td>6,497</td>
<td>4,175</td>
</tr>
<tr>
<td>Deficit (Surplus) for funded scheme</td>
<td>7,333</td>
<td>3,470</td>
<td>1,914</td>
<td>3,097</td>
<td>4,151</td>
</tr>
<tr>
<td>Actuarial (gain)/loss on liabilities</td>
<td>4,902</td>
<td>960</td>
<td>(750)</td>
<td>(99)</td>
<td>810</td>
</tr>
<tr>
<td>Experience adjustment on assets</td>
<td>740</td>
<td>(1,067)</td>
<td>211</td>
<td>714</td>
<td>(2,289)</td>
</tr>
</tbody>
</table>

**(e) Funding of Pensions**
The Commission expects to contribute €1,113,000 to its pension scheme in 2013.

**(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 National Treasury Management Agency for an amount not to exceed €5,000,000. 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></th>
<th>INCOME &amp; EXPENDITURE ACCOUNT</th>
<th>CAPITAL ACCOUNT</th>
<th>PENSION RESERVE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€'000</td>
<td>€'000</td>
<td>€'000</td>
<td></td>
</tr>
<tr>
<td>Opening Balance at 1 January</td>
<td>882</td>
<td>1,614</td>
<td>(1,590)</td>
<td>2,574</td>
</tr>
<tr>
<td>Surplus/(Deficit) for the Financial Year</td>
<td>1,744</td>
<td>(545)</td>
<td>(1,619)</td>
<td>(212)</td>
</tr>
<tr>
<td>Net Movement in Capital Actuarial Gain/(Loss)</td>
<td></td>
<td></td>
<td>(212)</td>
<td></td>
</tr>
<tr>
<td>Movement in Reserve</td>
<td>(167)</td>
<td>(112)</td>
<td>(20)</td>
<td>0</td>
</tr>
<tr>
<td>Closing Balance at 31 December</td>
<td>2,459</td>
<td>957</td>
<td>(3,229)</td>
<td>2,362</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 €2,458,690 was taken into account in determining the levy order for 2012. The accumulated surplus attributed to the gas sector of €957,323 was taken into account in determining the levy order for 2012.

The CER published its final decision on the High Level Design of the Petroleum Safety Framework in June 2012. The CER set out its final decisions on how it will levy the petroleum industry at the end of February 2013. Once the Petroleum Safety Framework is substantially implemented in 2013, the Commission will be in a position to levy petroleum undertakings for an apportionment of project implementation costs incurred to date as well as on-going operational costs for the Framework. The petroleum levy above shows a shortfall of €3.2 million. SI 136 of 2013 provides for the imposition of a levy of €2.87 million in respect of establishment costs. The remainder will be collected over the next three years.

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 Public Expenditure and Reform 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 23rd October 2013.
Financial Statements