

**Kore Energy briefing note on meeting between IBEC Large Energy Users Group and the Commission for Energy Regulation (CER) on 24 March 2010: Attended by Kore Energy on behalf of various clients**

- CER Attendees:** Michael Tutty, Commissioner, Dermot Nolan, Commissioner, Eugene Coughlan, Director of Gas Markets, Cathy Mannion, Director of Electricity Markets.
- IBEC LEU Attendees:** Erik O'Donovan, IBEC Energy Executive, Donal O'Murchu, Tara Mines, Paul Hannigan, Green Isle Foods, two representatives from smaller LVND energy users (not introduced), Pat McGrane, Kore Energy, on behalf of various clients.

**Meeting Agenda:**

1. Update on deregulation process
  2. Upcoming consultations on CPM and Network Charges
  3. Views on rebalancing of network charges
  4. Market information
  5. Rebates
  6. Secondary Gas Capacity
  7. AOB
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1. Update on deregulation process (The end of price regulation on ESB Public Electricity Supply – ESB PES).

The CER received 34 submissions in response to the consultation paper on ending the regulation of ESB PES which would effectively allow ESB to fully compete with independent electricity suppliers on an unregulated basis. Kore Energy issued a submission to the CER on this issue, a copy of which is attached. The CER advised that they will issue a draft decision paper on this in within the next two weeks and they indicated that full deregulation would commence in the Large Energy User sector by 1 October 2010. The CER also pointed out that they expect ESB PES will launch some innovative electricity supply products in the LEU segment. We stressed the importance of the pool pass through PES mechanism and some ways that it could be enhanced. CER's role is to become one of monitoring rather than regulation. In relation to the re-integration of ESB customer supply and ESB Powergen, the CER indicated that there was no decision imminent on this issue.

2. Upcoming consultations on CPM and Network Charges

The CER provided a brief overview of the forthcoming review of the Capacity Payment Mechanism (i.e. the Supplier Capacity Charge / Demand Charge). They indicated that there would be no fundamental changes to the operation of the CPM but did indicate that there would be a focus on the level of payment made to peaking plant relative to older baseload type plant. As less efficient baseload plant might often performs the role of peaking plant in the Irish market



we are not clear on the intent of the CER on this issue. As the inclusion of the CPM in the Irish market accounts for circa 50% of Irish generation charges (spark spreads) Kore Energy emphasised the high cost of generation margins in Ireland versus European norms, when the current rebate level is excluded from costs. We also made the usual arguments about ring fencing the capacity payment, preventing older ESB plant from receiving the payment and the appropriateness of the capacity pot in sending the correct economic signal to the market, in terms of attracting new entrant generators.

### 3. Views on rebalancing of network charges (Electricity)

This relates to a proposed adjustment of ESB network charges which could result in substantial changes to balance of revenues recovered from different segments of the market, say between Industrial customers and the wider domestic market. The rebalancing might also result in an adjustment in the relative importance of the capacity and commodity elements of network charges, with any shift towards commoditising the charges resulting in an increase in charges for Industrial users and a decrease in charges for domestic users. The CER advised that a paper will be issued on this within the next few weeks. There was no substantive discussion on the issue at the meeting.

### 4. Market information

Erik O'Donovan (IBEC) was keen that the CER would set up something that would give end users a greater understanding of electricity markets but it appears that this issue was driven by a degree of confusion around the non-application of the ESB rebate to LVMD sites from 1 September 2009 rather than a requirement for more detailed information around the day to day operation of the market in terms of pricing, plant availability etc. In relation to the IBEC agenda issue, we made the point that some of the complexity in products and tariffs delivered significant value to large energy users and replacing them with simpler tariff structures would almost certainly lead to higher overall costs. However, we used the agenda item to push for greater transparency and access to SEMO data on a nearer to real-time basis, emphasising the lack of transparency and availability of pricing for the Irish market versus the UK market. We received some positive noises from the CER on this issue it is likely that access to SMP (System marginal price) data and Demand charge data (the two component parts of the half hourly electricity price will be made available in a more usable format in the near future, together with further detail on plant availability, commissioning, outages etc.

### 5. Rebates

The CER informed the IBEC LEU group that the phasing out of the rebate will commence from 1<sup>st</sup> October 2010. They noted that €175 million was made available for 2009/10 and that this figure would reduce to €125 million for 2010/11. €50 million of this is derived from ESB Networks revenues and the remainder will be financed by a carbon windfall tax on generators, although this may be resisted by some or all of the independent generators. We presented a strong argument for the full retention of the rebate, emphasizing that this was required to off-set the lack of competitiveness in the Irish wholesale power price relative to key European markets. (See also point 1). There was some "heated discussion" on this point including some observations from the CER that UK prices were in fact more expensive than Irish prices – a point that they could not substantiate for obvious reasons.



## 6. Secondary Gas Capacity

This consultation centres around the issue of the Bord Gáis capacity portfolio benefit, where Bord Gáis currently sells capacity booked for these regulated market segments to large gas users who are RTF exempt. From the detail discussed at the meeting, it appears that the CER is going to lift the restriction on Bord Gáis in the RTF segment and they need to deal with the issue of secondary capacity sales as a result of this. The detail of the approach was not discussed. However, as this issue theoretically provides Bord Gáis with a competitive advantage over Suppliers who cannot access secondary capacity with the same ease, any developments in this area should ultimately benefit large energy users as an overall group. We will monitor this issue as further information is made available.

## 7. AOB

We raised the issue of Moyle capacity and the difficulties that we see in this area in terms of large energy users accessing value via UK import based arrangements. We pointed out that the CER was to revert to IBEC (from our last meeting) to advise on ways of removing blocks to trade. Cathy Mannion referred to the current discussion document but when I pointed out that this was a technical document, target at generators rather than consumers, she admitted that she had not read the document. There was broad agreement around the table that the CER need to get this issue sorted especially in the context of proposals for further inter-connection with the UK power market in the form of the “East-West” interconnector and the Imera inter-connector.

