



Andrew Mower

Editor

01603 604403

a.mower@cornwall
-insight.com

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Month in Review

In this month’s issue, we take an in-depth look at the CER’s review of competition in the retail gas and electricity markets. While the report offers highly useful insights into developments in the sector, we suggest that the regulator risks understating how well Ireland’s market is functioning overall.

Elsewhere, the Irish government has set out how changes in the energy sector will contribute to its efforts to protect the quality of the nation’s air. This came as part of a consultation on a new National Clean Air Strategy, which will seek to outline the policies needed to reduce air pollution.

Ireland’s energy minister Denis Naughten has announced a significant expansion of programmes aimed at addressing energy poverty. He said that too many consumers continued to live in homes that were “sink holes for fuel poverty”, and that ending this inequality was a priority.

The SEMC has decided that, at least until January 2020, supplier charges in the I-SEM will be levied on a net basis. The decision covers the charges that are levied on suppliers in order to recover certain costs, including capacity costs, imperfections charges, market operator costs, difference payment socialisation charges as well as currency adjustment and residual error volume charges.

New figures have confirmed that renewables generation in Northern Ireland in 2016 accounted for just over a quarter (25.4%) of electricity consumption last year—unchanged on the previous 12-month period. Wind continues to account for a strong majority of the share of generation from renewables, but bioenergy accounts for an increasing share.

ESB has confirmed that its operating profits dipped by over 6% to €597mn last year. It said that the fall was largely driven by the impact on earnings of weakening sterling. The performance equates to a return on capital employed of 6.1%, and will enable ESB to pay a dividend of €116mn this year.



CER concerned by retail /market competition

Last month the CER published its review of competition in the electricity and gas retail markets. The stated aim of the 136-page review is to “assess the extent to which competition is providing beneficial outcomes for consumers and what further policy actions may be required”.

However, both the tone of the review and the timing suggest that once again Irish regulatory policy is being influenced by events “across the water” (in Great Britain), with a cursory nod to what is happening in Europe.

The recurrent use of the “well-functioning market” paradigm throughout the review is perhaps the first clue that the CER has been paying close attention to the outcome of the energy market investigation in Great Britain, completed last year by the Competition and Markets Authority (CMA). The paradigm of a well-functioning market was the consistent—yet much maligned—yardstick by which the CMA sought to examine whether the GB energy market was working for all energy customers. The CER’s resurrection of this particular yardstick should therefore serve to warn all Irish suppliers that the regulator’s view of what constitutes effective competition will be rooted not in practice but theory.

The review is split up into five sections: barriers to entry, customer satisfaction, customer engagement, customer protection and retail pricing.

Barriers to Entry

The first area covered is the extent to which barriers to entry exist in the market. The CER gives a relatively clean bill of health to the ease with which suppliers can enter the market and grow their market shares. This is in spite of recognition that the use of “proxy hedges” in the SEM (purchasing gas to hedge electricity price risk) is quite prevalent amongst new market entrants, which is surely an indication that forward liquidity is not everything it should be. The CER also found evidence to suggest that greater barriers exist to entering the gas market than the electricity market.

Customer satisfaction

The CER was content with the level of consumer satisfaction in the market, the focus of the second section of the review. In this section the broad range of customer offers was cited as evidence that favourable levels of innovation were leading to greater choice for customers in the market. The

CER was, however, disappointed that innovation in the market had not led to any efforts to enable half hourly settlement for domestic customers. It considered there to be a lack of options available for prosumers (customers who produce energy in addition to consuming it) to export their generation on to the Irish market.

Customer engagement

The section devoted to reviewing customer engagement in the market provides the first real indication that competition, as the CER sees it, does not quite measure up to the well-functioning market yardstick. Of particular concern to the CER is that 58% percent of customers have never switched energy supplier, nor even considered switching.

This in turn means that the incumbent suppliers, Electric Ireland and Bord Gais (for electricity and gas respectively), have been fairly successful in retaining market shares close to the levels that they enjoyed before their prices were deregulated.

In an effort to combat the lack of new switchers in the market, the CER is introducing an obligation on suppliers to prompt their customers who have not switched in the last three years to engage in the market. The exact content of the prompt remains under consultation as part of the CER’s review of the supplier handbook. The CER is also introducing an obligation for suppliers to provide written notification of their contracts’ expiry 30 days prior to the end of any fixed term contract. The exact content of this notification is also under consultation as part of the wider consultation on the supplier handbook.

Introducing prompts to engage inactive customers in the market was the major remedy proposed by the CMA to tackle the levels of disengagement in the GB market. However, the end of contract notification prompt has been a feature of the GB market since retail market reform in 2013.

The CER’s decision to introduce such a prompt is particularly interesting given that the level of switching in the Irish market is high by European standards. In fact, the 2015 ACER–CEER market monitoring report, cited by the CER, showed that Ireland had the second highest switching rate in Europe for electricity at 14%, while in gas Ireland had the highest switching rate across all EU countries at 18.7%. One could therefore argue that the CER’s decision to introduce an obligation for

suppliers to prompt customers who have switched is perhaps less justified than the CER's decision to oblige suppliers to prompt customers who have never switched.

Customer protection

The CER is less critical of the performance of the market with regard to customer protection. The review highlights a downward trend in a number of key metrics such as disconnections, debt flagging and the number of PAYG financial hardship meters installed, which the CER interprets as evidence that a number of its recent policy interventions are bearing fruit.

Customer awareness of the ability of customers to register for priority services remains low however, and thus a number of policies are being introduced as part of the latest consultation on the supplier handbook to rectify this.

Development of retail prices

The section dedicated to reviewing retail prices might fairly be described as the CER's focused attempt to track down the bullet from the gun it cannot prove was ever smoking. References to the theory of a well-functioning market abound and it is clear that this review will form the beginning and not the end of the CER's probes into this area of the market.

The CER is of the opinion that competition is failing to reduce the costs that suppliers have a level of control over their gross margins. According to the report, "supplier costs" (gross margins) are not falling in line with what would be consistent with a well-functioning market. However, the evidence the CER is using to justify this claim could be open to challenge.

The CER estimates supplier costs by obtaining an average of retail prices in the market and subtracting estimates for the cost of both wholesale and networks. The basis for the wholesale cost estimate in particular leaves plenty to be desired.

To estimate the annual cost of wholesale electricity per customer, the CER uses the weighted average SMP price based on a typical half hourly domestic consumption profile and ignores any assumptions around hedging and forward power purchase. This seems a considerable oversight given the CER's own finding that the use of proxy hedges for forwards purchase is quite prevalent in the market.

The CER caveats that the analysis it has undertaken is merely the first step in a wider

project to understand supplier costs better. But whatever the reason, the analysis simply feels somewhat lacklustre—especially considering that this report is the first significant review of domestic retail competition since the market was deregulated.

Overall summary

It is no surprise that the Irish market does not fully measure up to the model of a well-functioning market (what market could). The CER, buoyed by the analysis in the 2015 ACER – CEER market monitoring report, does however have a clear target in its scope and we can definitely expect to hear more on the subject of "supplier costs".

On a holistic basis, and relative to other energy markets however, the Irish retail market is performing well. Customer satisfaction levels are high, switching rates are high and a number of key market indicators for customer protection are all trending in the right direction.

Therefore suppliers can take some solace in the knowledge a direct read across from the CMA's investigation of the GB electricity market will not be the source of whatever solutions might be needed for the Irish market.

As alluded to earlier, there are major reforms for retail energy markets coming down the tracks from Europe as part of the new deal for energy customers' reform package. There is therefore clear appetite at a European level to impose new market interventions aimed at empowering customers. It is here that the CER needs to be careful.

The Irish market is performing well and too often the policy approach to Europe in Ireland has been what works on a continent of more than half a billion inhabitants will definitely work on a small island with a population of 6mn, 1.5 mn of whom might be about to leave EU jurisdiction any way.

The CER therefore needs to up its game in terms of analysis and justify that any new measures proposed are demonstrably in the best interests of real competition and ultimately final customers.



Ireland focused on clean energy switch

The Irish government has explained how changes in the energy sector will contribute to its drive to “protect the quality of the air”.

On 1 March it opened a consultation on the National Clean Air Strategy. This is intended to set the policy framework that will be needed to reduce air pollution and promote cleaner air while delivering on wider national objectives.

The Irish government’s Energy White Paper, which was published in late-2015, outlined the strategic direction of national energy policy. It focused primarily on greenhouse gas reductions, with the implicit assumption that a fall in air pollution would accompany climate mitigation measures. It noted that, in the short to medium term, the fossil fuel mix would need to shift away from more carbon-intensive fuels and towards lower-carbon fuels like natural gas. In the longer term, a complete transition to renewables would be required.

In 2014, around 10% of NO_x and 30% of SO₂ emissions resulted from fossil fuel generation. The largest single source was the ESB Moneypoint coal-fired plant, emissions from which are regulated as part of a Transitional National Plan under the Industrial Emissions Directive until June 2020. Moneypoint is due to close in 2025 and will be replaced with low-carbon generation, and the consultation explained that any delay in this timetable could have implications for air quality in Ireland as well as meeting emissions reduction commitments under the revised National Emissions Ceiling Directive.

Progress is also expected on decarbonising heat. Under the 2009 Renewable Energy Directive, Ireland is committed to ensuring that, by 2020, 12% of national heating demand comes from renewables sources. The most significant component of this is expected to come from biomass, and a Renewable Heat Incentive (RHI) scheme, pitched at industrial and commercial customers, has been identified as the most effective way of promoting this technology.

However, the consultation explained that, from an air quality perspective, moving to biomass-fired boilers could be negative, with potential increases of emissions of particulate matter and NO_x emissions. Specifying air emissions criteria as part of the scheme might help to mitigate the impact that biomass installations can have on air quality, though if there is significant displacement of cleaner fuels like natural gas, overall emissions

could rise at the expense of air quality and public health.

The Energy White Paper commits Ireland to supporting energy efficiency in the residential sector. It is aiming to ensure that, by 2030, the Better Energy Programme has delivered the number of deeper energy efficiency upgrades required to put the residential sector on a realistic trajectory towards the low-carbon transition. The Sustainable Energy Authority of Ireland currently grants aid to a number of programmes that aim to improve energy efficiency; these include the Better Energy Homes Scheme, which is open to all home owners, and the Warmer Homes Scheme for vulnerable households in receipt of the National Fuel Allowance.

The Irish government has an overall strategy for combating energy poverty through to 2019. The consultation said that action in this area, in particular by increasing energy efficiency and converting to cleaner fuels could have added health benefits for cleaner air. Households at risk of energy poverty could opt for solid fuels because of the heating system available to them and the fact that solid fuels can be purchased on demand in smaller amounts.

The consultation seeks view on series of questions, including:

- What are the best means of regulating emissions from biomass plant that will be supported through the RHI
- How could transparency regarding large emissions sources regulated under the IED be improved
- Are there any particular incentives that could be introduced to promote a quicker transition to low-carbon heating in the residential sector
- Should gas be better promoted for home heating where it is available to houses on the gas grid
- Are there adequate supplies of cleaner fuels to supply the market and support the transition from smoky coal for residential heating by 2018

Responses are invited by 28 April.

The strategy places a welcome focus on demand reduction alongside steps to decarbonise supply.

DCCAE

Naughten expands energy poverty schemes

Ireland's energy minister Denis Naughten has announced a significant expansion of programmes aimed at addressing energy poverty.

Naughten addressed the Energy Action Fuel Poverty and Climate Action Conference on 6 March. He said that too many consumers continued to live in homes that were “sink holes for fuel poverty”, and that ending this inequality was a priority.

The Warmer Homes Scheme (WHS) remains the government's primary energy efficiency support mechanism for those in energy poverty, and Naughten has secured a record level of funding for the programme this year.

In his speech, he announced that consumers who met the eligibility criteria for the WHS and were living in homes that were in particularly poor condition would be entitled to receive a new deep retrofit that would significantly upgrade their homes free of charge.

These deeper renovations would provide for solid wall insulation, mechanical ventilation systems, and renewable heating solutions. In addition, those who previously received attic or loft insulation under the scheme but did not have their cavity walls treated can be revisited so as to receive their wall insulation now.

Naughten further confirmed that the Warmth and Wellbeing Scheme (WAWS), which was launched last year and targeted at the over-55s within selected areas of Dublin, would be extended to additional areas. Eligibility has been opened to families with young children.

He said: “For those who can afford to invest in their own homes, we are developing new incentive schemes to leverage larger investments from them. Throughout this process, however, I am determined that we focus on those who don't have the means to invest any funds in their home.”

The minister acknowledged that the drop-out rate for state-run energy efficiency schemes could be significant owing to the so-called “hassle factor”—even with those programmes that were offered free of charge. But, noting the relatively low dropout rate in the WAWS, Naughten said that this challenge could be overcome if people were properly supported throughout the process.

A critical long-term factor in energy poverty was the cost of energy, Naughten explained. He said that he wanted to ensure that markets were functioning effectively for those in energy poverty, and he welcomed the Commission for Energy Regulation's (CER) recent review of competition in the gas and electricity markets. CER would, he said, implement initiatives to stimulate consumer interaction with the energy market.

Looking forward, DCCAE will focus on two initiatives in particular over the next few weeks. Over the next month, new census data will be available for Ireland, and Naughten tied this to the European Commission's proposal for all member states to measure and report on energy poverty levels every two years. He said it was time to develop a new methodology for measuring energy poverty in Ireland, explaining: “I am confident that with better data we can have better policy that more effectively targets those most in need. I intend to appoint an independent chair to lead this process, to co-ordinate across Departments and to engage with all concerned to develop the best possible mechanism.”

The department will also publish a consultation paper that will examine minimum energy efficiency standards in the private rented sector. At present, a person renting is twice as likely to live in a home with a poor energy efficiency rating as a homeowner, and Naughten argued that without government intervention this would increase.

Naughten said improving Ireland's energy efficiency would be central to its plan for tackling climate change. He said: “I secured [in Budget 2017] one of the highest percentage increases in capital expenditure of any department. This is the critical choice I made with government backing on the agenda I am charged with delivering on. Energy efficiency is the most important means of tackling energy poverty. That is why I secured additional funding in this year's Budget.”

Insulation was not, he said, a panacea for tackling energy poverty, but it would ensure that consumers could live in warmer and more comfortable homes.

The Irish government's decision to provide more funding for tackling fuel poverty marks an interesting contrast with the UK, which has decided that it will try to do more with less.

DCCAE

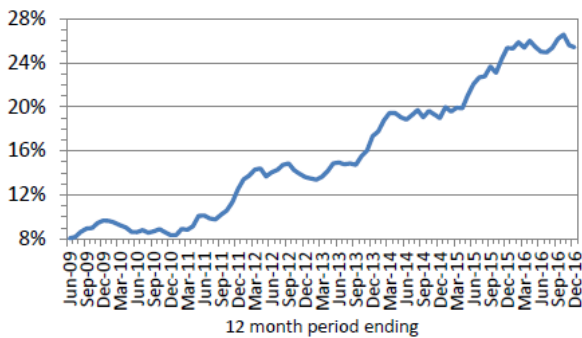
Renewables generation static in 2016

New figures have confirmed that renewables generation in Northern Ireland in 2016 accounted for just over a quarter (25.4%) of electricity consumption last year—unchanged on the previous 12-month period.

On 9 March the Department for the Economy published its latest report on Electricity Consumption and Renewable Electricity Generation in Northern Ireland.

Nevertheless, the figures still demonstrate significant progress on the picture a few years ago. For example, in the 12-month period ending June 2009, only 8.1% of consumption was generated from renewables. Average renewables generation volumes have subsequently increased by 203%.

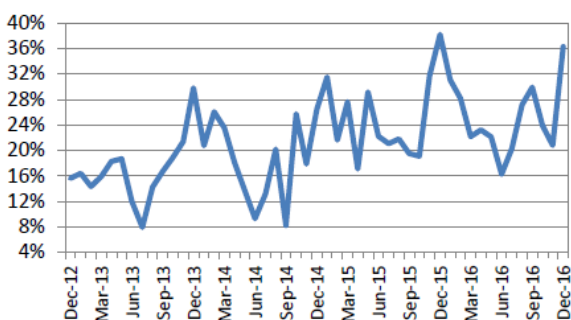
Rolling 12-month average percentage electricity consumption from renewables



Source: Department for the Economy

In December 2016, just over a third (36.3%) of Northern Ireland’s electricity consumption was generated from renewables. This was higher than the corresponding figure for the previous month, but was lower than the year-on-year figure (38.4%).

Percentage of electricity consumption from renewables sources by month



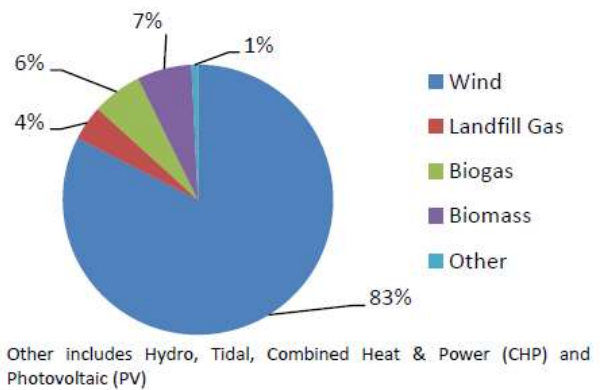
Source: Department for the Economy

The previous table demonstrates the extent of month-on-month variation in the wind generation levels. This is a consequence factors such as variable weather and new renewables generation facilities coming online.

Last year, approximately 7,794GWh of electricity was consumed in Northern Ireland. Of this, 1,981GWh was generated by renewables sources.

The vast majority of renewables generation in Northern Ireland comes from wind projects. Overall, these accounted for 82.6% of renewables generation in 2016. Other contributors are shown in the table below.

Renewables generation by type of generation



Source: Department for the Economy

But whilst generation from wind continues to contribute the predominant share of power from renewables, the contribution from other sources has been growing. In December 2014, wind accounted for just over 90% of Northern Ireland’s renewables generation. The change has largely been driven by the recent increases in generation from biogas and biomass.

The Northern Ireland Executive’s 2010-20 Strategic Energy Framework includes a target to deliver 40% of electricity consumption from renewables by 2020.

The figures show wind continuing to make a major contribution to power supply, but also the increasing importance of other technologies within Northern Ireland’s renewables mix.

Department for the Economy

Ireland to focus on diversifying energy supplies in wake of Brexit

The UK's vote to leave the European Union will add further impetus to Ireland's efforts to diversify its energy supplies, a government minister has said.

Speaking on 27 February, energy minister Denis Naughten noted that all of Ireland's existing gas and power interconnections were with Britain, and that it would be "irresponsible" not to explore other options. He said it was important that Ireland had direct connections into the European Union, and that the government was "determined to make sure that happens".

The minister told Reuters that two projects that had been in planning were now being given particular priority: an electricity interconnector to France, and a liquefied natural gas terminal. Both projects had, Naughten said, been slowed by a lack of regulatory clarity, but he added that "we are in a very different era now post-Brexit and because of that the issues that hadn't been looked at in the past are now being revisited".

Naughten acknowledged that Brexit could have a significant impact on the energy markets, explaining: "Naturally enough there is going to be anxiousness but I think there is determination there that you would continue to be able to trade freely across, let's say, the north seas."

He was confident that Brexit would not undermine the single electricity market between Ireland and Northern Ireland, saying that all involved had a mutual interest in maintaining it.

No link

Irish households foregoing heat to save costs, survey finds

New research by price comparison service Switcher.ie has revealed that nearly seven in 10 (69%) Irish households went without heating at some point this winter in a bid to cut their bills.

Issued on 14 March, the survey showed that almost a quarter (24%) of people regularly went without heating, a point that the site suggested could be driven by the average annual gas and electricity bill standing at an "eye-watering" €2,060. Such was the extent of the concern about the high price of energy that only a third (33%) of consumers said that they had never had to go without heating to keep costs down.

More than four in 10 (44%) people said that the level of their energy rationing over the winter had meant that they had been colder at home than was ideal.

More than half (55%) of people thought that they had achieved the right balance between keeping warm and managing their energy costs. One-fifth (20%), however, said that they would like to do more but were concerned about the potential impact on their quality of life or health.

Switcher.ie

Farmers could be encouraged to grow energy crops

The Irish government is examining possible financial mechanisms that can incentivise farmers to grow energy crops, the Irish Independent has reported.

An article published on 14 March said that energy minister Denis Naughten and agriculture minister Michael Creed were progressing talks over the possibility of income gains for farmers who could grow eucalyptus and willow to support a new green energy sector in the midlands.

The two ministers will, over the next few weeks, present the Irish government with a memo on Bio Energy Ireland: a semi-state company that would aim to drive the supply and delivery of biomass and biogas to large heat users in the industrial and commercial sector.

Naughten said: "I am putting the outlet for biomass and biogas in place so farmers will now see there is a strong market demand. We're creating a supply chain for that with Bord na Mona and Coillte. We have also been working with Teagasc in relation to what are the best crops to use in the best parts of the country."

No link

SEMC accepts interim net basis for supplier charges

The SEMC has decided that, at least until January 2020, supplier charges in the I-SEM will be levied on a net basis.

The decision covers the charges that are levied on suppliers in order to recover certain costs, including capacity costs, imperfections charges, market operator costs, difference payment socialisation charges as well as currency adjustment and residual error volume charges.

In its consultation the SEMC considered three approaches to recovery: net demand, which is the current approach; non-negative net demand, which prevents payment of market operator charges to suppliers; and gross demand. Whereas the first two approaches allow a supplier to net off their contracted de minimis generation from their customer demand for the purposes of calculating their supplier charges, the gross demand approach would levy the charge on the total demand.

Of over 360 responses received to the consultation, the vast majority strongly opposed implementing the gross demand solution. The SEMC said the primary issue raised related to the financial impact that such a change would have on the revenue received by de minimis generators contracted to suppliers through power purchase agreements. Their role is to facilitate Renewable Energy Feed In Tariff (REFIT) payments in Ireland, and outside of such arrangements under the Renewables Obligation in Northern Ireland.

Other issues of concern included: the compatibility of the different approaches to supplier charging with the design of the I-SEM Capacity Remuneration Mechanism (CRM); the question of recognising the capacity contribution of de minimis generators and the associated issue of possible barriers to participation of smaller generators in the new market arrangements; the overall cost to the consumer of the different approaches; incentives for efficient investment; and the impact that such a decision would have on the ability to meet EU renewable energy targets.

However, the SEMC considered the arguments in favour of the gross demand approach were stronger than those opposing it. It had several concerns about the net demand approach in respect of the CRM. It said the intention of the CRM design is that it should be the only route to a

Reliability Option, whereas under the net approach de minimis generators would be remunerated for capacity, without having to pre-qualify and enter the capacity auction. It would also not be the same product from a reliability perspective as it does not have the same incentives to be available at times of system stress but would receive higher payments, based on a per megawatt-hour load factor rather than de-rated capacity. The SEMC said it will examine what mechanisms would reduce the costs of participation in the CRM so that the capacity contribution of de minimis generation can be fairly rewarded.

The SEMC was not convinced that the net demand approach reduced overall costs to consumers. It considered that the majority of savings in supplier charges from the net demand approach are likely to be retained by suppliers, as the marginal cost of supply will still be set by the cost of procuring energy from non de minimis generators. It concluded that to the extent that the gross demand approach minimises payments to de minimis generation for services that there is no verifiable way to measure, this reduces costs to consumers.

Despite this, the SEMC said it recognises that, due to system limitations, the only available approach that can be ready by the planned I-SEM go-live date is to charge suppliers based on their net demand. Pending a final decision on the enduring approach it is requesting SEMO and the Meter Data Providers (MDPs) to ensure that their systems also have the capability to provide for a transition to gross demand. It said that based on information from the MDPs this is likely to take a minimum of 12 months to design, build and test.

The SEMC will determine the enduring approach at a later date, and will also set out the conditions under which a transition, which would occur no earlier than January 2020, could take place.

The debate between gross and net charging arrangements has strong parallels with a live issue in the GB market where Ofgem is currently considering its decision in respect of the appropriate transmission charging arrangements for embedded generation.

SEMC

Competition in NI retail markets continues to mature

In its latest quarterly report on the retail energy markets the UR notes that Go Power and Flogas have made gains in the gas I&C sector.

The report, issued on 28 February, covers Q4 2016 when there were nine suppliers in the electricity market and six in the gas market, although not all are qualified to operate in all sectors. In December electricity supplier Open Electric ceased supplying customers, which triggered the Supplier of Last Resort process. As a result, all Open Electric’s customers were transferred to Power NI.

By market share, Power NI remained the largest domestic electricity supplier, with 46.1% of the prepayment market and 67.8% of the domestic credit market by consumption. However, both these shares have fallen, from 51.7% and 71.5% respectively in the previous quarter. Electric Ireland increased its presence by gaining over 10,000 connections to 30,413, taking its market share to 3.4%.

In the I&C sector, where there are eight suppliers, the largest supplier by consumption was Go Power with 34.1% overall. It had a 56.9% share of the large I&C market (greater than 20,000MWh). Power NI dominated the smaller sector (less than 20MWh) with a 50.1% market share followed by SSE Airtricity at 20.2%. Go Power was third in this sector at 16.6%.

Switching in the domestic market was marginally up on Q3 at 32,295 representing 4.1% of the market; this compares with a rate of 3.1% for Q4 2015. In the I&C market Q4 switching was higher at 1,911 switches or 2.7%, up from 1.9% the previous quarter although down from 6.1% in Q4 2015.

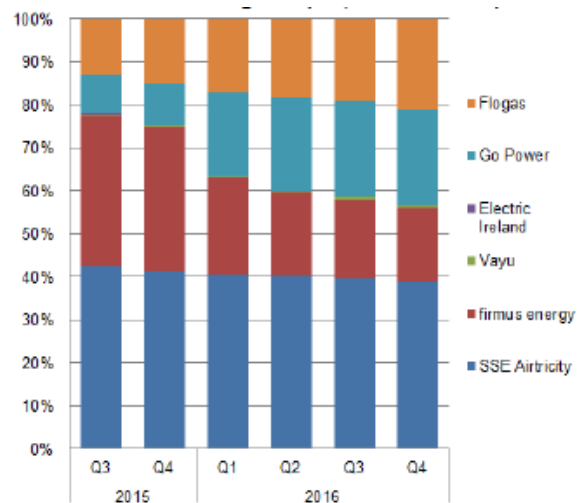
In gas in the Greater Belfast area the incumbent supplier SSE Airtricity held 70.5% of the domestic prepayment and 79.7% of the domestic credit market, while firmus energy held 29.5% and 20.3% respectively. In the I&C market below 73,200kWh market share was rather more spread with SSE Airtricity holding 68% against firmus energy’s 12.4%, Go Power’s 10.3% and Flogas’s 9.1%.

Go Power’s and Flogas’s market share is gradually increasing each quarter—the two companies had a combined market share of the domestic and small I&C market of 0.8%, an increase from 0.5% for Q4 2015. However, in the medium and large I&C market their market share has grown more quickly. At the end of Q4 2016, Go Power and

Flogas had 22.4% and 21.1% share of the medium and large I&C market respectively, a substantial increase from 9.8% and 14.9% share at the end of Q4 2015.

Firmus energy’s share of the medium and large I&C market has decreased substantially since Go Power and Flogas entered the market. Firmus energy had market shares in this sector of 33.4% at the end of Q4 2015 but this has reduced to 17.2% by the end of Q4 2016 (see Figure 1 below).

Greater Belfast I&C gas market shares by connection Q4 2016



Source: UR

Domestic switching remained at 0.1% and I&C switching was also unchanged at 1.3% compared to the previous quarter.

In the Ten Towns area, only the incumbent supplier firmus energy chooses to supply the domestic market, while four suppliers compete in the I&C market. In the smaller I&C market firmus energy retained a 73.3% share, although the combined share of Flogas, Go Power and SSE Airtricity has increased from 7.7% in Q4 2015 to 26.7% in Q4 2016. Firmus energy’s share of the market has also fallen in the medium and large I&C market. At the end of Q4 2016 it had a 65.4% share compared with 84.6% at the end of Q4 2015.

This latest report reflects that efforts to chip away at incumbents’ domestic market shares are accelerating and that we are seeing increasingly fluid I&C markets.

UR

UR decides on derogations process for network codes

Under the requirements of the three connection-related European network codes (for generation, demand, and HVDC systems and DC connected power park modules) national regulators are required to consult on and issue the criteria they will adopt for granting derogations from their requirements. The first of these network codes, on generator connections, came into force in May 2016. In December the UR issued a consultation on its proposed criteria and process for derogations (*ESI23, p12, 16/01/17*). This also covered clarifications to derogations from other technical codes and standards which generation, transmission and distribution licensees are obliged to comply with under their licences.

Issuing its decision, together with a guidance document on 17 February, the UR said that it has decided to adopt the process and criteria set out in its consultation, subject to some minor changes made in the light of the responses received. These clarify the need for separate derogations if a single requirement is reflected both in the Grid Code and the relevant network code and that, if an asset is sold, the derogation does not transfer with it.

The new process for submission of derogation requests is effective immediately.

UR

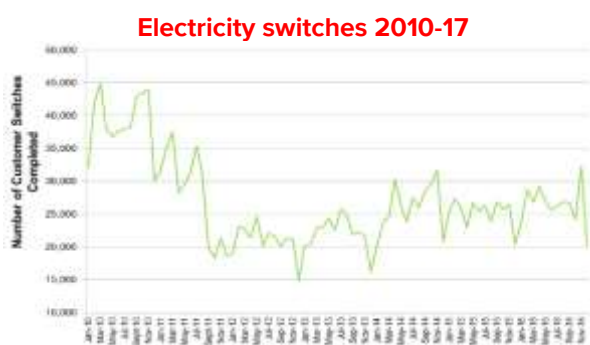
Switching in RoI up in electricity but down in gas

CER issued its latest update on switching activity in the Irish Republic on 14 February covering November and December but also looking at developments over recent years.

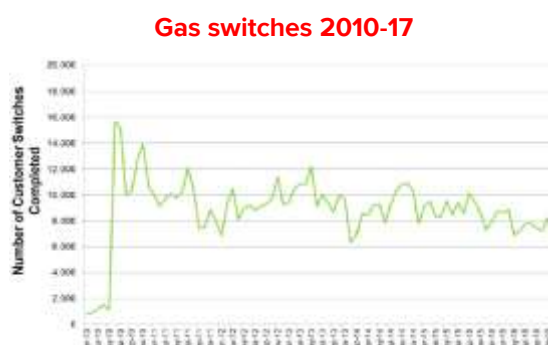
In electricity November saw the highest number of switches in the year at 32,301, with 20,061 in December. The average number of electricity switches per month for 2016 was 26,447, up on the 2015 average figure of 25,226. In November and December Electric Ireland and SSE Airtricity lost customers in November and December 2016, while Energia, PrePayPower, Bord Gáis Energy and Pinergy gained customers overall.

In gas there were 8,233 switches in November and 6,715 in December against an average of 7,786 in the year as a whole. However, the average number of gas switches was 8,868 in 2016, down slightly from the 8,905 in 2015. Bord Gáis Energy and Electric Ireland lost customers in the last two months of the year, while SSE Airtricity, Energia and Flogas gained customers.

CER also presented data covering seven full years of switching data. This shows the trends in switching for both electricity and gas (see Figures 1 and 2 below) and the net switching position for companies over the same period for domestic and business customers.



Source: CER



Source: CER

While it does not present analysis of the figures, the CER discusses consumers' behaviour in respect of switching in its review of competition in the energy retail markets (see this issue page 2-3)

CER

Paul McGowan announced as new CER chairperson

CER announced on 17 February that Dr Paul McGowan has been appointed as the new chairperson of the Commission, succeeding Commissioner Garret Blaney.

McGowan is currently the lead Commissioner with responsibility for Energy Safety and Water Regulation and has been a member of the Commission since 2013. Prior to becoming a Commissioner, he held a number of roles in the CER, including the Director of Energy Safety and Director of All Island Energy Markets, with his prior career including work in the offshore oil and gas, education and construction sectors.

The regulator said it will continue to be led by three Commissioners, Paul McGowan, Garret Blaney and Aoife McEvilly, with no significant changes to the current areas of responsibility.

[CER](#)

CER invites comment on Eirgrid Transmission Development Plan

CER issued the Transmission Development Plan 2016-26 (TDP) prepared by Eirgrid for consultation on 2 March.

The TDP presents projects that Eirgrid considers are likely to be needed to reinforce the transmission network and help achieve the strategic objectives set out under EU and national policies. The cut-off date for information to produce the report was 31 March 2016.

The TDP outlines 20 projects that have been completed since the TDP produced last year and 13 new projects. It also outlines a total of 116 projects that are currently in progress including 34 new builds, 60 upratings of/modifications to the existing network, 20 refurbishments/replacements of elements of the existing network and two other projects. A draft Environmental Appraisal Report has also been prepared in support of the TPD which considers whether it is in line with committed strategic environmental objectives.

CER will require Eirgrid to fully consider all comments and suggestions submitted before submitting the final TDP to the regulator. Responses are requested by 30 March.

[CER](#)

CER sets out new auditing arrangements for supplier PSO levy submissions

The CER issued suppliers a notification on 22 February to provide all relevant information to enable the CER to certify the 2017-18 Public Service Obligation (PSO) Levy.

The PSO Levy is charged to all electricity customers in the Republic of Ireland and covers various subsidy schemes designed by the Irish government to support national policy objectives in related to renewable energy, indigenous fuels (peat) and security of energy supply. The proceeds of the levy are used to compensate relevant generators with costs that are not recovered through the electricity market. This electricity is generally procured via power purchase agreements that suppliers enter into with generators.

Due to the increased volume of PSO submissions the CER said it will apply a “hard” cut-off date of 1 May, and warned that any supplier not meeting this statutory deadline would not have its costs included, with the exception of certain Exceptional Circumstances. The submission must be made via the CER’s secure portal for submissions.

Additionally, CER said that it has introduced new requirements in respect of the certification of a supplier’s PSO costs by auditors. Although the requirement for an audit is required through legislation, it is not further explained and this has resulted in variation in auditor’s certification.

Therefore, CER is now introducing measures, with immediate effect, to standardise and regularise audits. It set out details of the information that the supplier’s independent auditor will need to provide when submitting an auditor’s certificate.

[CER](#)

UR raises SSE Airtricity Gas Supply **and firmus energy's** maximum average tariff

The UR issued the conclusions of its review of SSE Airtricity Gas Supply's tariff on 3 March which will see prices for domestic and small business customers in the Greater Belfast area rise by 7.5% from 31 March. It issued the conclusions of a similar review for firmus energy on 8 March that will see its tariff in the Ten Towns area increase by 12.2%. The increases will take effect from 31 March.

The new maximum average price that can be charged to domestic and small businesses is 109.63p/th for SSE Airtricity and 129.56p/th for firmus energy. The impact of the tariff change on a domestic customer on a standard tariff credit with average consumption of 12,500kWh a year will be an increase of £36 a year in Greater Belfast and £66 a year in the Ten Towns area. SSE Airtricity is also the commissioning/default supplier within the West area, where customers are expected to be connected within the next few months, and the maximum average price applies to this area too.

The UR carries out formal reviews of the companies' maximum annual price on a bi-annual basis, in advance of April and October. It seeks to ensure that customers pay no more than the costs of purchasing and supplying gas plus a pre-determined allowance for the operating costs of the business and an agreed profit margin. The last tariff changes were in April 2016 when the tariff fell by 10.2% for SSE Airtricity and 7.7% for firmus energy. The regulator said that for both companies the main driver in the forthcoming increases is the increase in the forecast wholesale cost of gas: for SSE Airtricity this rose from 39.97p/th for the April 2016 to 49.69p/th; for firmus energy the increase was from 37.25p/th to 52.37p.th. Both companies over-recovered their revenue last year, leading to £2.6mn being returned to customers by SSE Airtricity and £476k by firmus energy.

Commenting separately on the tariff increase the UR's director of retail and consumer protection Kevin Shiels noted that the increases will still leave its domestic tariff for Greater Belfast and the Ten Towns area lower than the average standard tariff in the Republic of Ireland. He said SSE Airtricity's tariffs would be amongst the lower standard gas tariffs in the UK, while firmus energy's would be in line with the average standard gas tariffs.

[UR – SSE Airtricity](#) [UR – firmus energy](#)

CER consults on proposal to release further generator application details

Eirgrid and ESB Networks, as transmission and distribution network operators respectively, have proposed to publish additional information on parties with a completed application to connect to their networks. Currently information on generation applicants seeking connection to the transmission or distribution system is published every month on Eirgrid's website. This sets out certain information including the capacity of the project, its location and the project's status (for example whether it is "live" or "on hold").

The system operators have now proposed that that additional information should be published, which the generator connections liaison group has supported. This comprises the assumed 110kV node (in some cases 220kV and above) and the generation technology type, for example wind or diesel.

The CER considers that the proposal would increase transparency for all applicants considering connection to the network, either under the existing connection rules or the forthcoming enduring connection policy. It said information about the number and generation type or applications for a connection at a given node would give an indication of potential processing timelines and the likelihood of interactions that that node. This should provide more efficient locational signals to new entrants, contributing to a more optimal and sustainable network and generation development.

The CER has additionally proposed that ESB Networks should publish information on applications for distribution connection on its own website, while information for transmission connection would continue to be published on Eirgrid's website.

Responses are requested by 23 March.

[CER](#)

ESB reports lower operating profits

ESB has confirmed that its operating profits dipped by over 6% to €597mn last year.

The company published its financial results for 2016 on 10 March. It said that the fall was largely driven by the impact on earnings of weakening sterling. The performance equates to a return on capital employed of 6.1%, and will enable ESB to pay a dividend of €116mn this year.

ESB's Group Finance Director Pat Fenlon said: "In the face of intensifying competition, these results reflect a strong operating performance across the ESB Group. ESB continues to focus on delivering value and investing in critical long term electricity infrastructure for the benefit of our customers, shareholders and the wider Irish economy, and this is enabled by maintaining a strong financial position."

The generation and wholesale business reported that profits fell by €10mn year-on-year to €231mn. Revenues were up by €86mn to €262mn.

The company said that it had experienced excellent plant availability during the year, along with the successful commercialisation of the new 885MW Carrington CCGT in the UK. The year also saw the first installation of ESB's first commercial battery storage project in a joint venture with Kingspan. Meanwhile, construction of the 40MW Tilbury Green Power waste wood to energy plant, located in Essex, remains on course for commercial operation before the end of this year.

Overall, ESB currently owns 5,727MW of thermal and renewable generation assets across Ireland and the UK at present, with a further 112MW under construction.

The company said that the planned change from the current SEM to the I-SEM by May 2018 presented a degree of uncertainty and increased complexity. It was likely to affect market revenues and result in increased competition, but ESB said that it was well-placed to respond to this challenge.

ESB made €81mn of investments in its existing generation portfolio last year, with major overhauls at the Dublin Bay and Coolkeeragh power stations, and the continuation of a fleet-wide hydro refurbishment programme.

The ESB Networks division reported an operating profit of €314mn—an improvement of €27mn on

the preceding year. However, capital expenditure was €121mn lower at €373mn.

The division's focus during the year was on continuing the reinforcement of the system in order to facilitate the connection of new renewables generation. It also continued to invest in the electricity distribution network in order to improve reliability of supply and ensure the safety of the network.

Profits at Northern Ireland Electricity Networks dropped by €13mn to €35mn. But the division continued a major investment programme, including the completion of a substation in Belfast and significant progress in the refurbishment of six other substations.

ESB's retail arm Electric Ireland reported a €28mn improvement in profits, which reached €72mn overall. The improvement was primarily driven by lower energy costs, and a one-off charge the year before that had related to regulated renewables income. The company said these benefits had been passed onto customers through price reductions in June and October 2016. Electric Ireland's overall market share dropped by 1pp to 37% primarily as a consequence of customer losses in the residential sector.

Electric Ireland said that it operated in one of the most dynamic and competitive markets in Europe, as evidenced by the high levels of market entry in recent years and customer switching trends. But it has taken "significant steps" towards its strategic objective of being a "supply business of scale", such as the introduction of a new enduring reward product for its loyal customers. It has also progressed the development of its smart and connected home products, which will be launched later this year.

ESB's innovation arm also said that it had made substantial progress during the year. It had sought to identify the likely impact of the ongoing transformation in the energy industry and to assess the threats and opportunities that this presented. Moving forward, key areas of focus include distributed generation, storage technologies, and new business models.

ESB has reported strong performance across its business despite increasingly intense competition.

ESB

Greencoat Renewables launches with acquisition of Irish windfarms

Greencoat Renewables announced on 10 March that it had agreed to purchase the Knockacummer and Killhills windfarms in Ireland from Brookfield Renewables. Together, the projects comprise 137MW of operating capacity.

The seed capital for Greencoat Renewables has been provided by Allied Irish Banks and the Ireland Strategic Investment Fund (ISIF). The company intends to raise further, long-term capital to build a portfolio of operating renewables assets in Ireland, with the objective of deliver a progressive income stream to investors.

Greencoat Renewables is managed by Greencoat Capital, a renewable investment manager with over €1.7bn of equity under management across a number of funds in wind and solar infrastructure, and private equity. In 2013, the company launched the UK's first listed renewables infrastructure platform, with the launch and listing of Greencoat UK Wind on the London Stock Exchange.

Brookfield has invested in the build out of Knockacummer and Killhills windfarms over the past three years and has over 350MW of operating wind capacity in Ireland. Further, it has over 60MW currently in construction and a development pipeline of more than 200MW.

Paul O'Donnell, Partner at Greencoat Capital, said: "We are delighted to have secured this strong seed portfolio. Ireland is an attractive market in which to generate renewable energy from wind, given its strong wind resource and long established regulatory backdrop. We look forward to building upon the infrastructure success we have had in the UK, now with an Irish focus."

Eugene O'Callaghan, Director of ISIF, said: "Having pioneered the UK's listed renewables infrastructure sector, Greencoat has a proven track record in sourcing and investing new long-term capital into the renewable energy sector. ISIF is pleased to be an early stage investor in a business that offers similar potential for Ireland and enables the country's continued transition to a low-carbon economy."

[Greencoat](#)

Nordex strengthens position in Ireland

The Nordex group confirmed on 6 March that it had reached the milestone of having 500MW of wind turbines operating in Ireland.

The figure was reached with the commissioning of Energia Renewables' 95MW Meenadreen windfarm in Donegal. In total, Nordex turbines with a capacity of 529MW are now operating in the Republic, corresponding to a market share of almost 20%.

The company received 184MW of orders from Ireland in 2016, around double the amount received in the preceding year.

[Nordex](#)

Simple Power completes wind projects

Simple Power has announced the completion of several wind projects across Northern Ireland.

The turbines, situated on farms in counties Antrim, Down, Tyrone and Londonderry are part of the company's "continued build and energisation programme".

Philip Rainey, Chief Executive, said: "Our energisation programme is helping to meet Northern Ireland's energy needs, using the natural power of wind to generate renewable energy for the local electricity grid.

"While the closure of the Northern Ireland Renewables Obligation (NIRO) subsidy scheme in June was disappointing, we are working extremely hard to develop those projects that meet the eligibility criteria. Despite the many constraints, we remain committed to wind energy which we believe has a vital role to play in our country's energy mix."

[Simple Power](#)

Republic of Ireland & Northern Ireland

Policy and Regulation Consultations Register

Sponsor	Background and proposal	Impacts	Close date
SEMC	I-SEM Operational Parameters Credit Cover and Imbalance Settlement	High: I-SEM participants	20 March
	The consultation was issued on 3 February. It sets out the SEMO proposals for I-SEM parameters in relation to credit cover and imbalance settlement.	The proposals affect the level of credit cover that I-SEM participants will need to provide in order to operate in the market and also parameters affecting the calculation of uninstructed imbalance quantities and charges.	
CER	Draft Transmission Development Plan 2016-26	Medium: G,S , Cons	30 March
	The consultation was issued on 2 March. The CER is consulting on Eirgrid's proposals for development of the transmission system over the next ten years,	The plan outlines a total of 116 projects that are currently in progress including 34 new builds, 60 upratings of/modifications to the existing network, 20 refurbishments/replacements of elements of the existing network and two other projects.	<i>Referenced in ES125, p13</i>
UR	Second consultation on Energy Theft Code of Practice	Medium: S, Cons r	7 April
	The consultation was issued on 7 February. It invites views on the UR's updated proposals for the Energy Theft Code of Practice as part of its consumer protection strategy. It sets out the high level design, principles and content of the document.	Suppliers are proposed to be mandated to comply with the code of practice in managing the prevention, detection and investigation of theft. Separate codes are proposed for gas and electricity and network companies and suppliers will need to work together to define appropriate procedures.	<i>Referenced in ES124, p7</i>
DCCAE	Public Consultation on the National Clean Air Strategy	Medium: G, Cons	28 April
	The consultation was issued on 1 March. The DCCAE is developing a National Clean Air Strategy that will provide the policy framework to identify and promote the measures needed to reduce air pollution and promote cleaner air.	In respect of energy the consultation invites views on the best means or regulating emissions from biomass plant that will be supported by the Renewable Heating Initiative, on who transparency regarding large emissions sources regulated under the Industrial Emissions Directive	<i>Referenced in ES125, p4</i>
DCCAE	Public Consultation on the Clean Energy for All Europeans Package	High: All	1 May
	The consultation was issued on 22 February. It invites views on the European Commission's package of legislative proposals on clean energy, which consists of eight proposals related to: energy efficiency; electricity market design; renewable energy; and Energy Union governance.	The proposals seek, inter alia, to amend and update the existing energy efficiency Directive; to develop the existing rules governing electricity market design; build on previous achievements towards the development of the internal energy market; enhance the regulatory oversight of ACER; and replace the existing Renewable Energy Directive.	<i>Referenced in ES125, p?</i>

Cons = all consumers	Cb = business consumer	Cr = retail consumer	Clu = large user	D = distributor
DG = distributed generator	G = generator	P = producer	S = all suppliers	Sb = business supplier
Sr = retail supplier	Sh = shipper	T = transporter	Tx = transmission	

All impact ratings reflect a judgement on the potential commercial effects of the consultation and the issues involved.

- High impact—we suggest a response is necessary and/ or colleagues should be alerted
- Medium impact—we suggest a response may be considered appropriate. Possibly alert relevant colleagues
- Low impact—we suggest this should be noted for information only. Possibly make relevant colleagues aware