



Energy market developments

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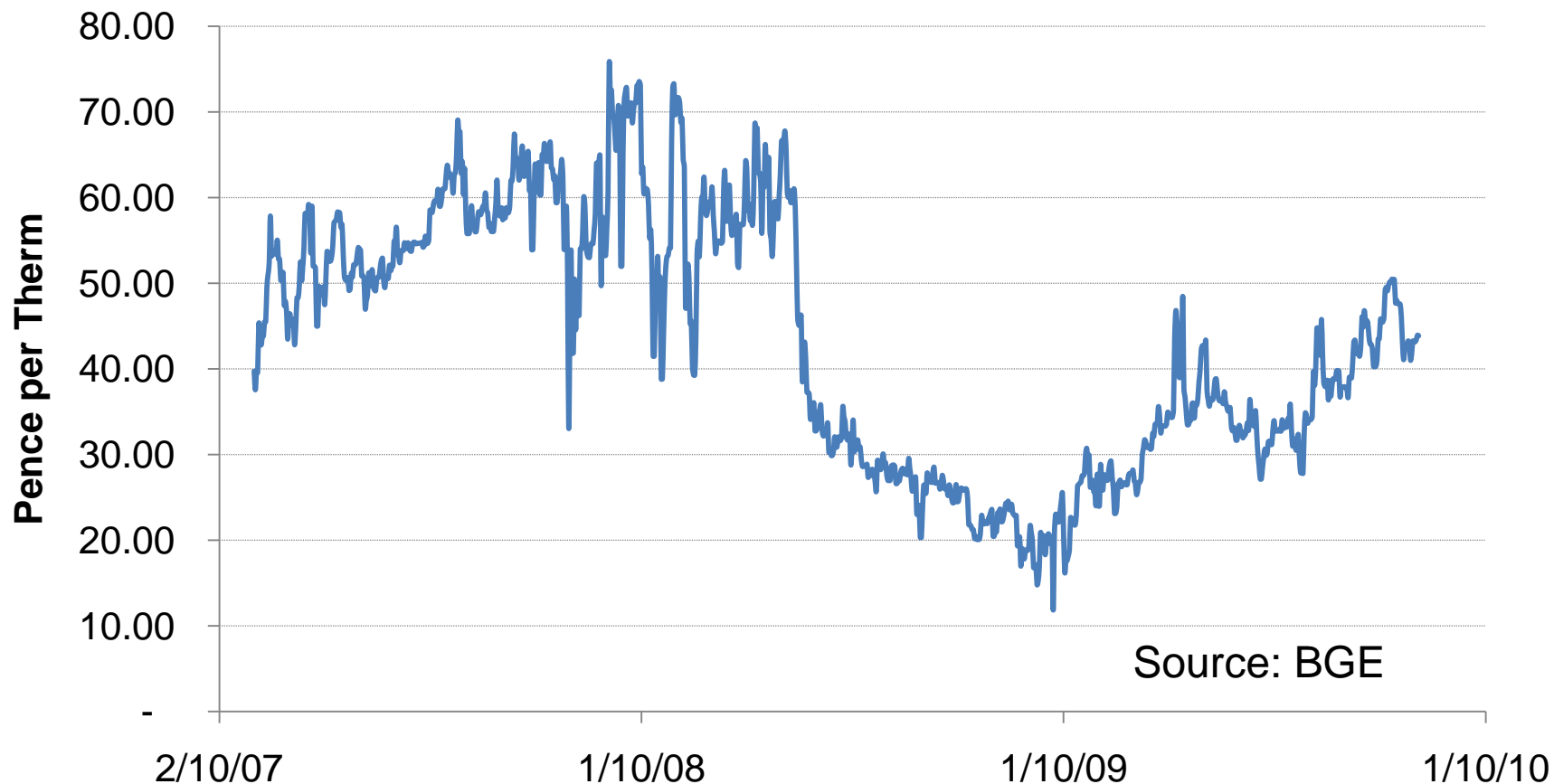
Taking a look ahead...

- **Wholesale Electricity**
 - Circa 60% of the bill
- **Regulated charges**
 - Typically 35%
- **Supply Margins**
 - Hitherto regulated



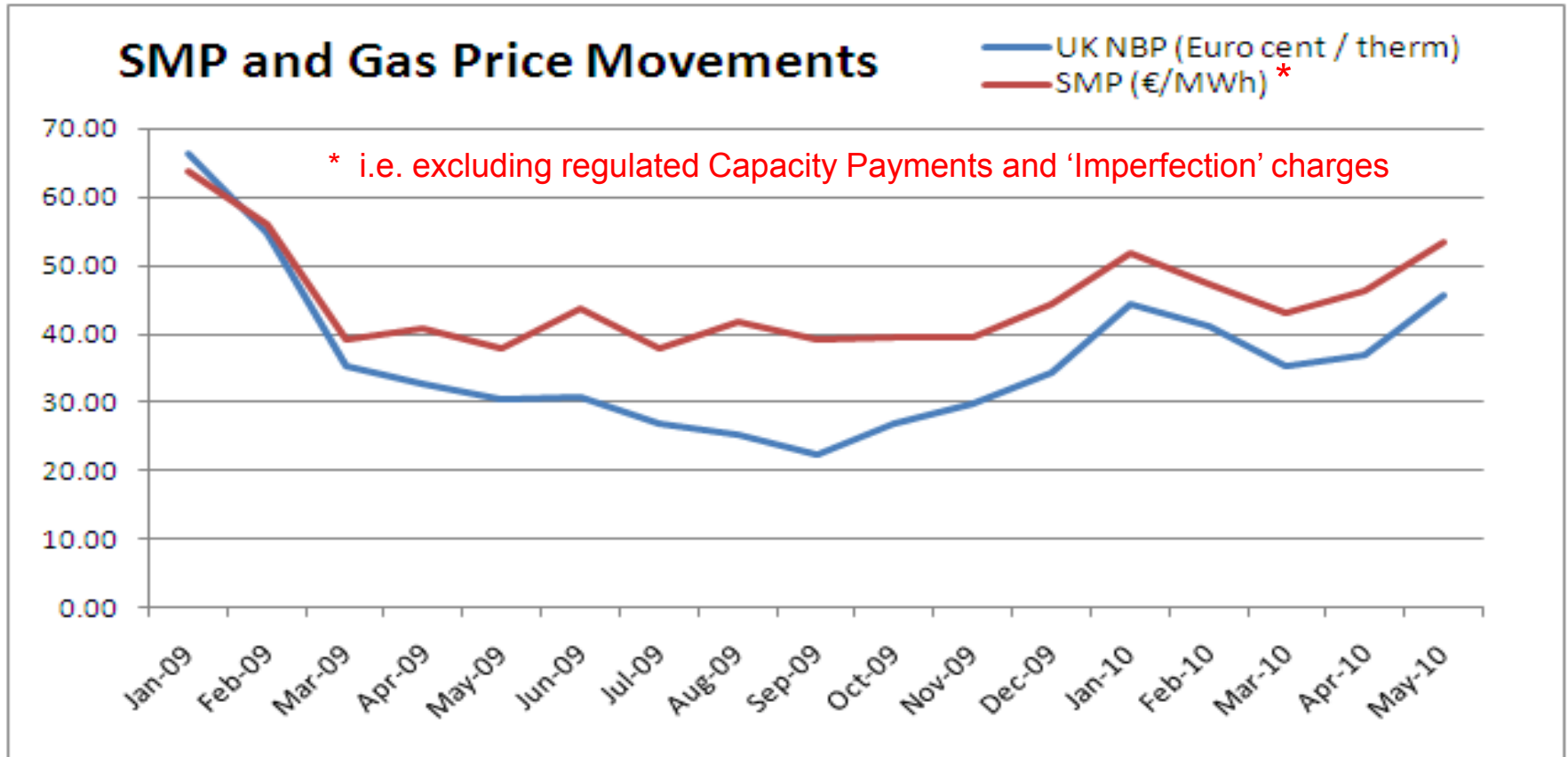
SEM wholesale prices are historically linked to UK gas...

UK NBP Day Ahead Price - Natural Gas



Source: BGE

... but with an apparent change since March 2009...



Source: CER

... and might they one day reflect GB *electricity* prices?

- Additional electrical interconnection from 2012
- Thereafter, SEM price impact will depend on how effectively the market can be **coupled** with BETTA
 - IBEC/CBI are actively working with the market participants and the regulatory authorities on this
- Potential for reduction in SEM wholesale prices?
 - During periods of *imports* through EW Interconnector
 - Similar to the ‘Merit Order Effect’ that is expected from increased levels of wind generation

But in the short term

- SMP in the SEM is likely to creep up
 - provided that the European and UK economies continue to recover, driving up natural gas prices
- But gas prices seem unlikely to spike to their previous (2007) highs
 - ‘peak oil’ does not necessary imply a shortage of gas
- Prudent hedging decisions (e.g. on gas price or the carbon adjusted spark spread) could provide respite, at least temporarily, from rising wholesale costs

Market coupling - a double-edged sword?

- BETTA spark spreads are generally lower than in SEM
 - Partly due to the mix of coal, gas and nuclear in GB
 - Partly due to BETTA market structure (self-dispatch)
 - Partly due to SEM bidding rules (SRMC) and the treatment of Capacity Payments
- But the apparent SEM premium might not always exist
 - Current levels in BETTA are *unsustainably* low
 - Serious lack of incentives for new capacity build

Regulated costs for a 'typical' Large Energy User

	2009/10	2010/11
	€/annum	€/annum
TuoS	85,196	46,871
DuoS	157,600	88,282
SEMO	295,915	289,323
PSO	-	48,300
LEU rebate	-270,270	-156,646
Net regulated cost	268,441	316,130
Net increase		€47,689
Increase per MWh		€3.11
Increase in AUP		3.9%

This assumes:

- 3500kVA maximum import capacity
- 50% load factor
- Daytime usage
- DG7 connection
- 8c/kWh AUP

The long-term outlook for regulated charges

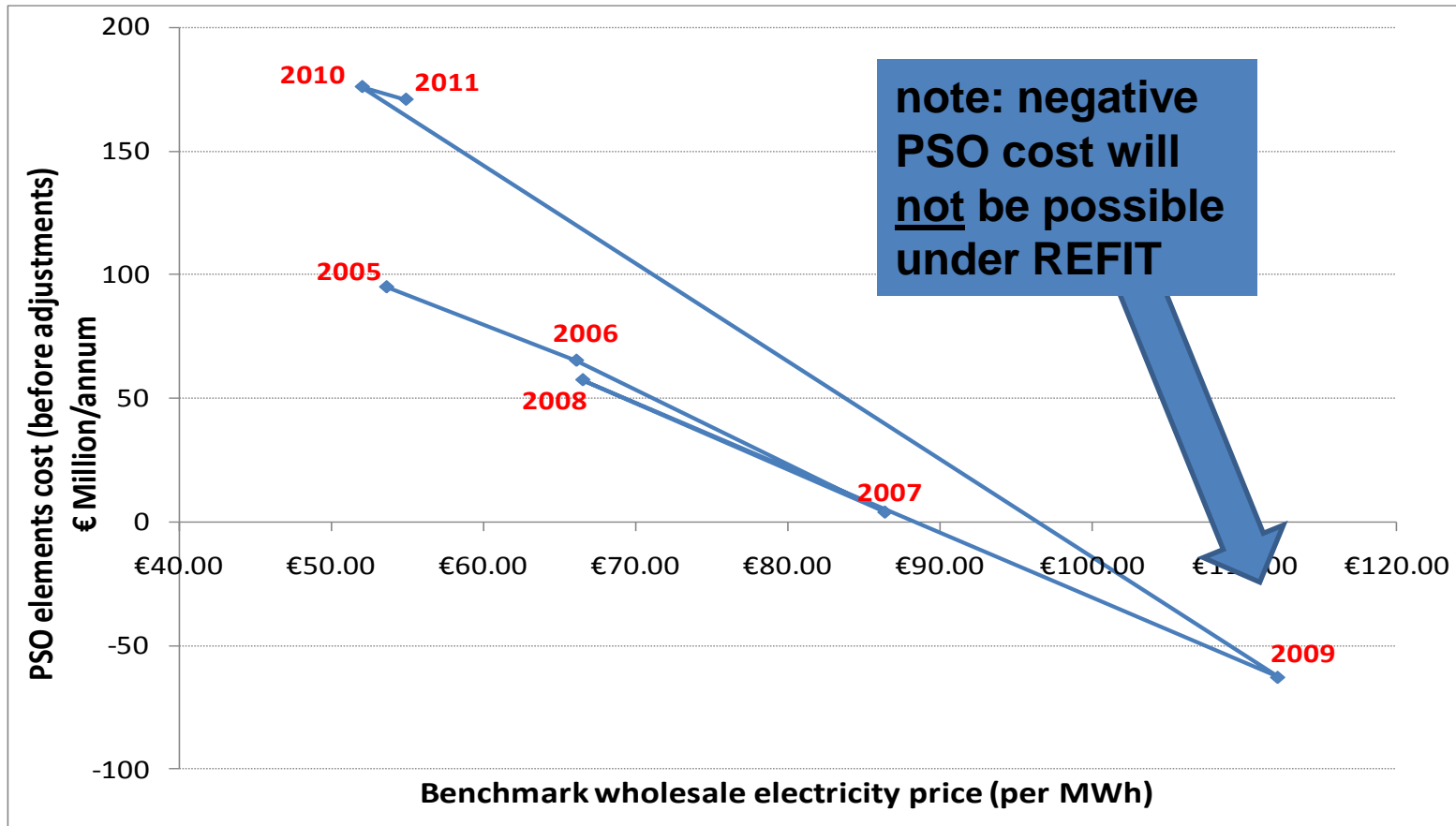
- T&D tariffs will remain subject to CER review throughout the 2011-15 revenue control period
 - Controlling costs requires matching the infrastructure roll-out to the rate of electricity demand growth
 - But Grid 25 is mainly driven by renewable electricity trajectory to 2020 (40% RES-E)
- PSO costs in 2010/11 reflect contracts going back up to 10 years – mainly providing security of supply
 - But as Gate 3 rolls out, future PSO charges will increasingly reflect the investment in renewables

Hypothetical 2020 PSO outcome with 40% RES-E

Category	Onshore wind	Offshore wind
Capacity	3500MW	550MW
Energy	9200GWh	1800GWh
REFIT (real 2010*)	7.5c	14.0c
Reference price	5.5c	5.5c
PSO cost**	€184 Million	€153 Million
<p>* Implies indexing for both REFITs</p> <p>** Before adjusting for balancing margin and capacity payments</p>		

Quadruple this in the NREAP 'Export' scenario

PSO will also depend on the level of SEM prices



Supply Margins? No longer regulated at $<3\%$



It is up to the end-users to ensure that retail competition proves to be effective – although CER will presumably be watching...

Thank you

For general information, contact me at neil.walker@ibec.ie

To participate in an informed debate on the opportunities and risks associated with future investment in renewable electricity, start by visiting :

www.irishtimes.com/newspaper/finance/2010/0906/1224278285821.html