



Energy market developments

Neil Walker

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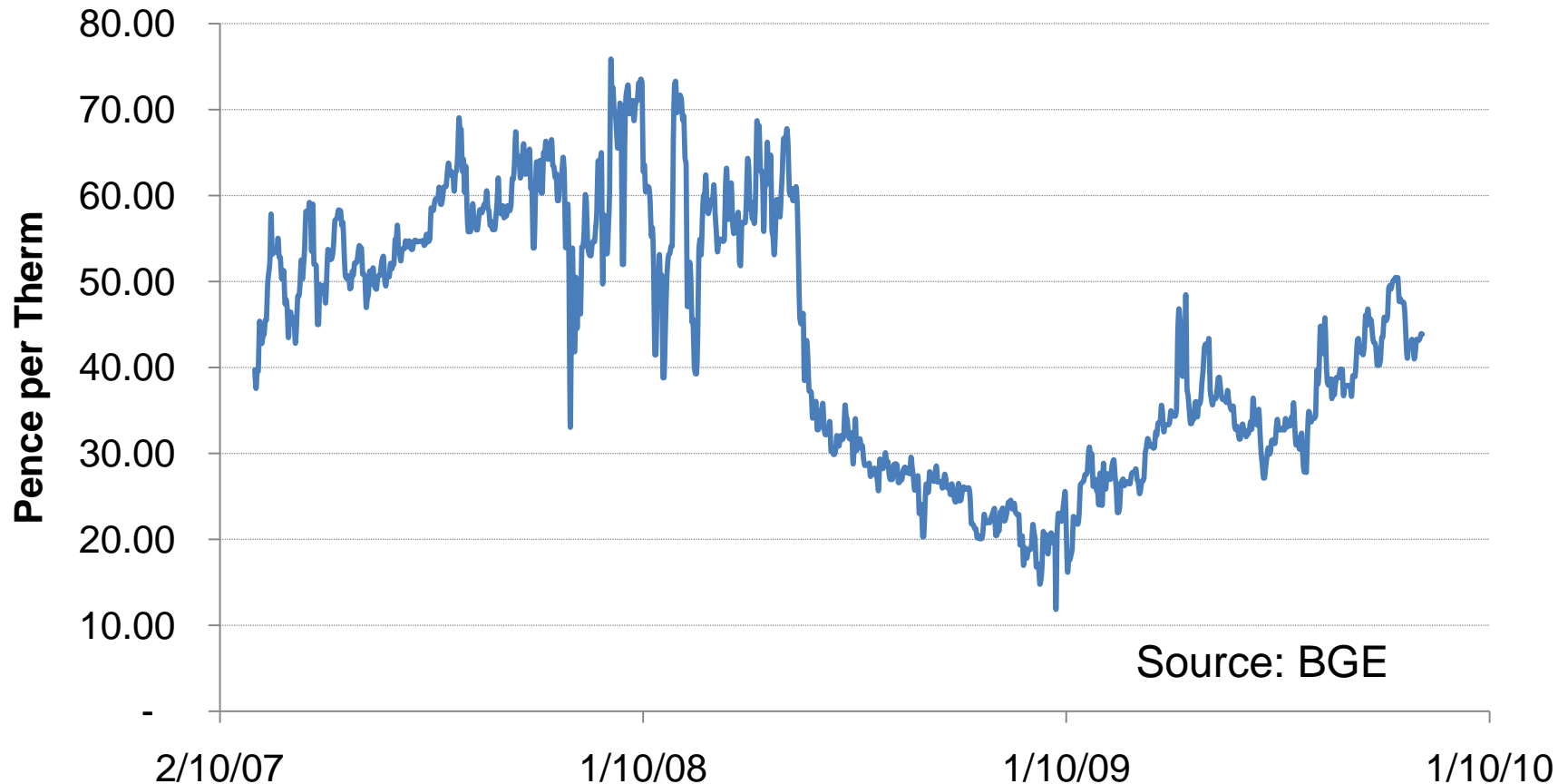
Taking a look ahead...

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



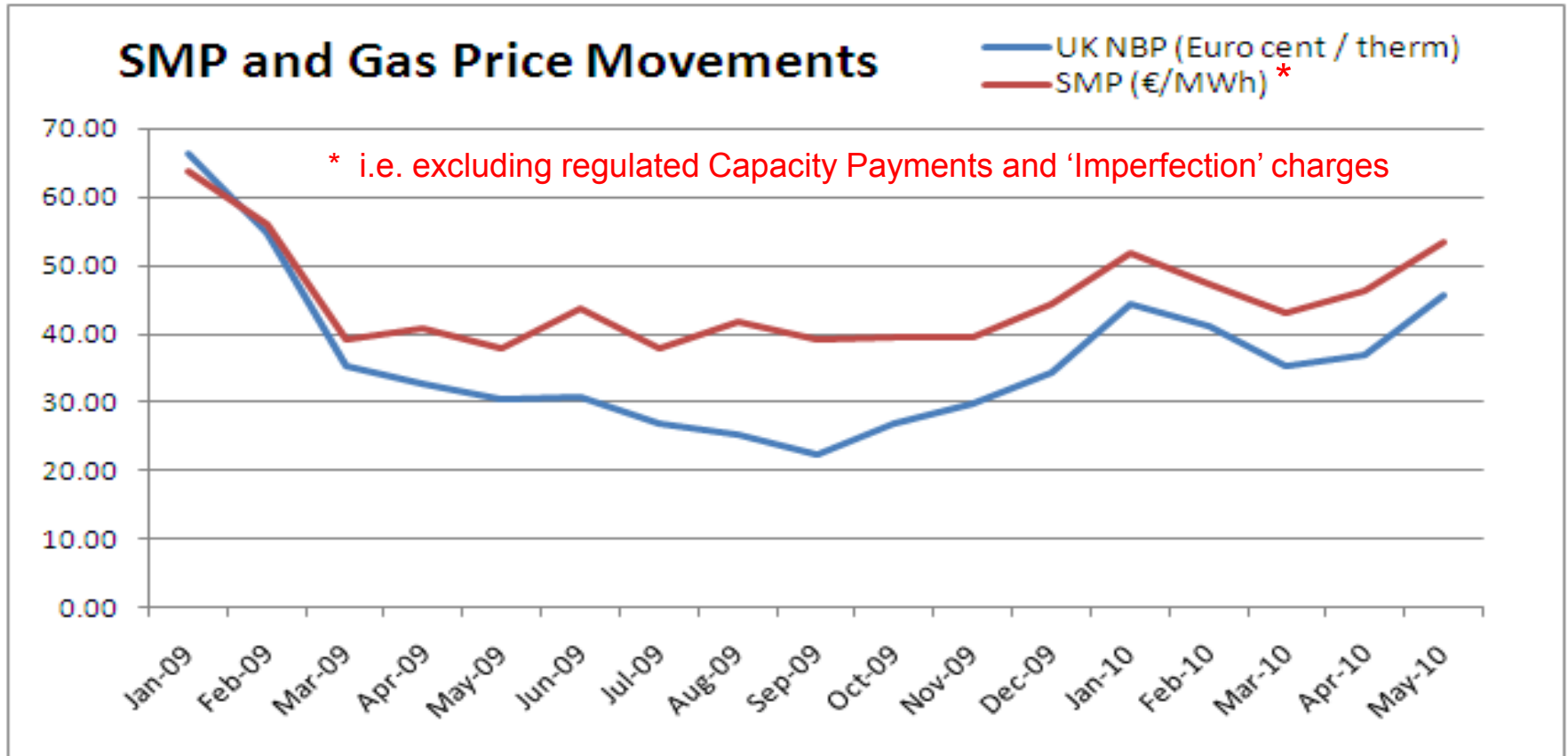
SEM wholesale prices are historically linked to UK gas...

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

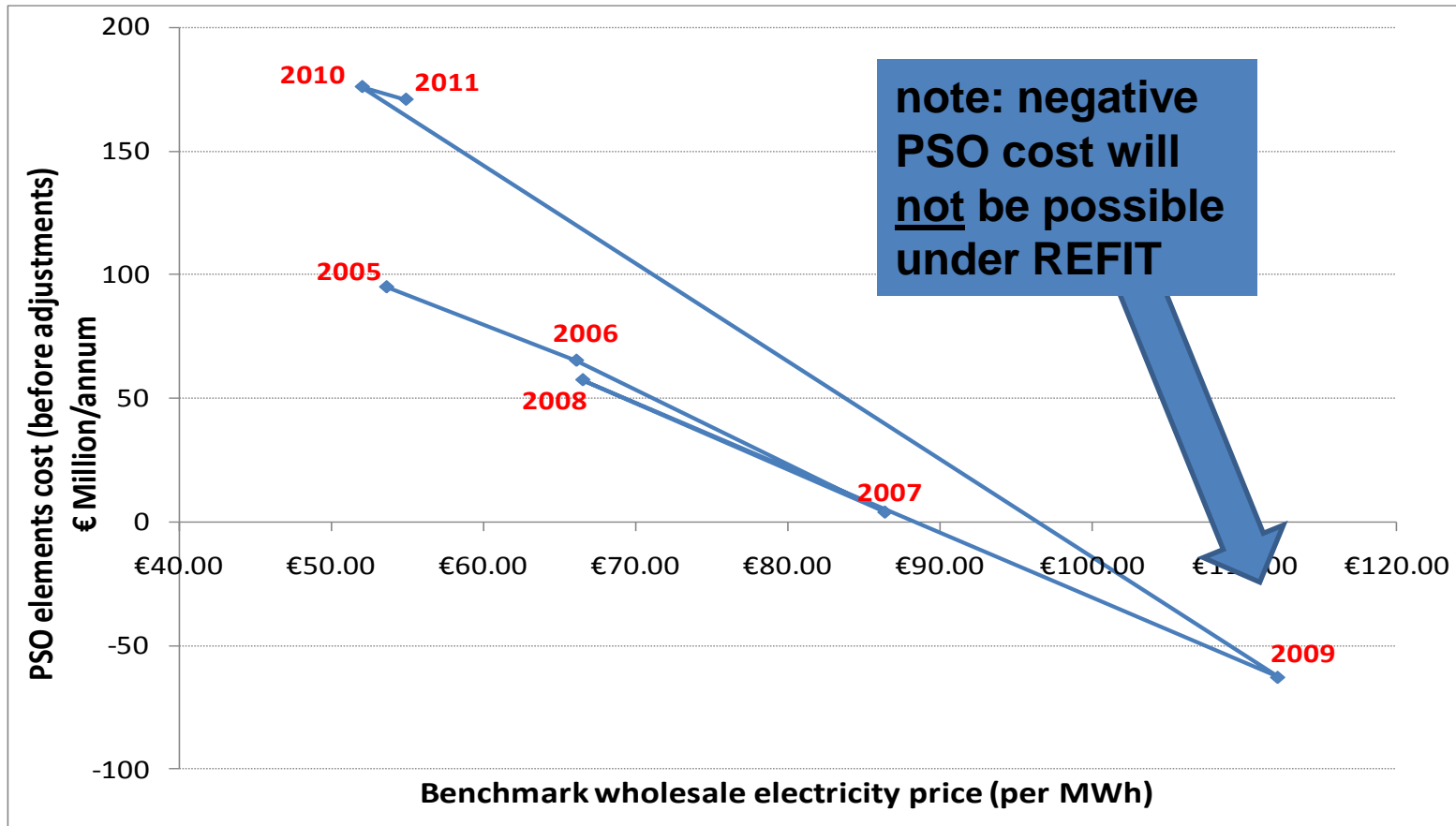
Category	Onshore wind	Offshore wind
Capacity	3500MW	550MW
Energy	9200GWh	1800GWh
REFIT (real 2010*)	7.5c	14.0c
Reference price	5.5c	5.5c
PSO cost**	€184 Million	€153 Million

* Implies indexing for both REFITs

** Before adjusting for balancing margin and capacity payments

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