



# Quarterly Review

OF THE IRISH ELECTRICITY MARKET

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## Foreword

The publication of the Government's Energy White Paper is a significant development with wide-ranging implications for the Irish electricity market. EirGrid welcomes the White Paper and is fully committed to progressing the policy actions outlined within it. EirGrid will have an important role to play, working with Government and the industry, to facilitate increased competition, energy efficiency, fuel diversity and significant growth in renewable generation.

The Government has targeted 33% of electricity consumption to be met by renewable sources by 2020. To achieve this will require progress on increased interconnection, energy storage, more flexible conventional generation and the ability to control wind generation output. That said, Ireland is well on track to achieve its 15% renewables target by 2010 with already approximately 780MW of wind generation on the power system and developments now underway to increase this to over 2,000MW.

The Government's decision to combine the functions of transmission system owner and operator is a logical and pragmatic one. It will drive energy efficiencies by removing existing boundaries between ownership and operation, promote competition with increased transparency and accountability from a fully independent state body, and is in line with many other European countries where experience has shown it to be effective and to the overall benefit of consumers.

As the White Paper was published on March 12, detailed commentary will be provided in the next Quarterly Report.

2007 promises to be an exciting and challenging year, as we transition to the new all-island Single Electricity Market and progress the various initiatives contained within the new policy framework. We look forward to working with all stakeholders and customers to ensure this is a successful year.



*Fintan Slye*



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## EirGrid publishes Generation Adequacy Forecast 2007-2013

EirGrid, as the Transmission System Operator (TSO), has published the sixth Generation Adequacy Report, outlining the expected changes to Ireland's generation portfolio up to 2013, arising primarily from high demand growth, plant closures and the significant amount of wind due to connect to the system.

The main objective of the report is to inform market participants, regulatory agencies and policy makers of the likely generation capacity required to achieve an adequate electricity supply and demand balance up to 2013. Given the uncertainty concerning future demand growth, wind penetration and plant availability, a number of scenarios are used.

The commissioning of Tynagh (384MW) and Aughinagh (161MW) in 2006 significantly increased dispatchable plant by 545MW, resulting in a total installed capacity of 5,836MW of fully dispatchable plant by the end of 2006 (a increase of over 10%). The commissioning of Huntstown 2 towards the end of 2007 will add an additional 401MW of capacity with a formal capacity reliance with Northern Ireland adding another 200MW, following an agreement between EirGrid and SONI to harmonise generation adequacy assessment methodologies.

Overall, the analysis suggests that the generation position is adequate from 2007 to 2010 so long as system availability is in line with generation forecasts; potential new plant comes on line; and the closure of plant is carefully managed. Under all scenarios analysed, and assuming generator-forecasted median availability, deficits will begin to emerge in 2010 with deficits ranging from 633MW under a low growth demand forecast and 1,362MW under a high growth demand forecast by 2013. This is based on an average annual increase in demand from 2006 to 2013 of 2.4%, 3.8% and 4.1% for the low, median and high demand forecasts respectively and availability forecasts ranging from 86% to 92% with an overall availability of the enduring portfolio of 86% in 2006 and an additional fourth low availability scenario whereby the enduring portfolio has 84% availability. The analysis also takes into account the addition of two 430MW units in the South-West in 2009 and 2010. Importantly, if plant closures are higher than expected or if availability performance falls below forecast levels, deficits could emerge as soon as winter 2007.

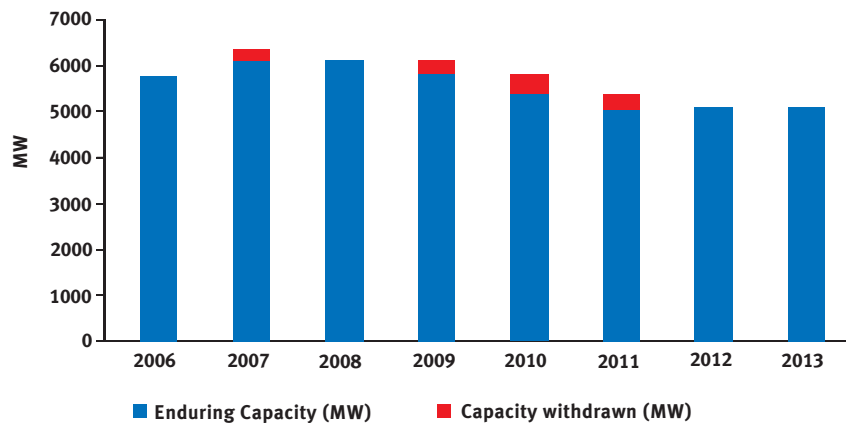
ESB Power Generation intends to close around 1,300MW of capacity over the next

DEMAND SCENARIO	GDP GROWTH	TER* GROWTH	WINTER PEAK INCREASE (MW)^
High	5.5%	4.1%	213
Median	5.0%	3.8%	195
Low	2.9%	2.4%	121

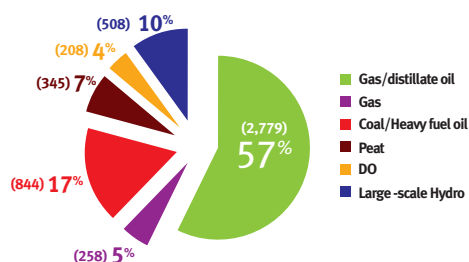
\*Total Energy Requirement ^ In TER terms

five years, reducing the installed capacity of fully dispatchable plant from 6,437MW to 5,150MW by the end of 2010. Ireland's portfolio of generation plant will therefore change quite significantly over the period 2007-2013. In order to ensure security of supply during this period of change it is crucial that the level of availability of the existing portfolio of plant is improved and stabilised and that plant scheduled for closure can be made available until replacement plant has been commissioned. The high penetration of wind will require conventional plant to undertake more cycling duty (following demand and wind power variation). EirGrid considers it prudent to analyse the requirement for more flexible plant so that an informed decision on new generation capacity post-2011 can be made.

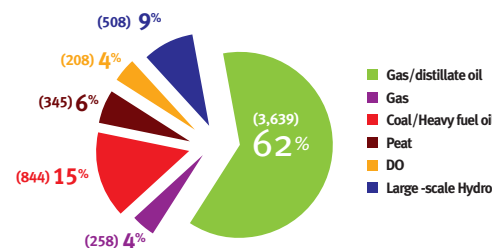
### IMPACT OF PLANT CLOSURES ON THE CAPACITY OF FULLY DISPATCHABLE PLANT



### INSTALLED CAPACITY BY FUEL TYPE IN 2013 (MW)



### INSTALLED CAPACITY BY FUEL TYPE IN 2013 + 2 CCGTS (MW)



Source: EirGrid Generation Adequacy Report 2007-2013, 1st December 2006.

## EirGrid takes over operation of Powersave scheme

A decision on Powersave rules and rates was published in December 2006.

The Powersave scheme incentivises registered Powersave customers to reduce electricity demand or increase electricity exports on request in return for payments on the basis of kWh reductions achieved. EirGrid takes over responsibility for the operation of the Powersave scheme from ESB Power Generation in 2007 and will operate Powersave on a Rules basis rather than on the previous contracts basis, with rules documented and published separately from the contract agreed between suppliers and participating customers. Existing Powersave contracts between ESB Power Generation and suppliers will be null and void once the rules become effective.

The Powersave rules outline the type of customer which can participate in this scheme, the basis on which customers get rewarded for reducing their demand as well as the various roles of market participants and registered Powersave customers. These rules contain no material changes to current procedures in the calling of, administration, eligibility or settlement of the Powersave scheme.

Powersave rates vary by 'peak' and 'off-peak' periods. Peak hours are those hours which occur on (a) Monday to Friday inclusive in the calendar months November, December, January and February between 17.00 and 19.00, or those hours which occur on (b) Monday to Friday inclusive in all the other months of the year between 11.30 and 12.30. Off-peak hours are the hours which occur outside the Peak hours. The rates for 2007 have been increased in line with the Winter Peak Demand Reduction Scheme (WPDRS) rates for 2006/07.

### Powersave Rates

cent/kWh	2006	2007
Peak rate	76.18	92.01
Off-peak rate	30.47	36.80

Source: Powersave Rules: Summary of Scheme & Rates, CER/06/264, 13th December 2006.

## Winter Peak Demand Reduction Scheme 2006/07 is approved

The Winter Peak Demand Reduction Scheme 2006/07, which is operated by EirGrid, was approved by the CER last October 2006. Participants in the scheme are rewarded for reducing demand and consumption levels during peak hours i.e. 17.00-19.00 on selected business days during the November-March winter period with payments based on pre-approved demand reduction and peak consumption reduction rates. The introduction of a de Minimis threshold applicable to new small customers with an MIC below 250kVa was considered appropriate for efficiency reasons. The below payments have been approved by the CER for 2006/07 period, representing a 20.78% increase on the rates approved last year. This increase is to reflect the approved increase for regulated large business category tariffs, in particular the energy element of the tariff.

PAYMENT TYPE	PAYMENT
Reliability Payment Rate	€432/MW per day (€216/MW per hour)
Reliability Rebate Rate	€4,320/MW per day (€2,160/MW per hour)
Profile Payment Rate	€97/MWh

Source: Winter Peak Demand Reduction Scheme 2006/2007, CER/06/224, 19th October 2006.

## Statement of Charges for 2007 approved and published

EirGrid's 2007 Statement of Charges for use of the transmission system from 1st January 2007 to 31st December 2007 and proposed transmission loss adjustment factors (TLAFs) from 1st January 2007 to 31st October 2007 were approved by the CER in October 2006. The charges were derived in accordance with the revenue allowed by the CER for 2007. The Statement of Charges and Payments for Ancillary Services in 2007 has also been approved.



## Regulatory Authorities receive final report on cost-benefit study of the Single Electricity Market<sup>1</sup>

NERA Economic Consulting has presented its final report on a cost-benefit study of the Single Electricity Market to the Regulatory Authorities. In this report the SEM is compared with a business-as-usual scenario, using a 10-year time horizon from 1st November 2007 and a real discount rate of 3.5%.

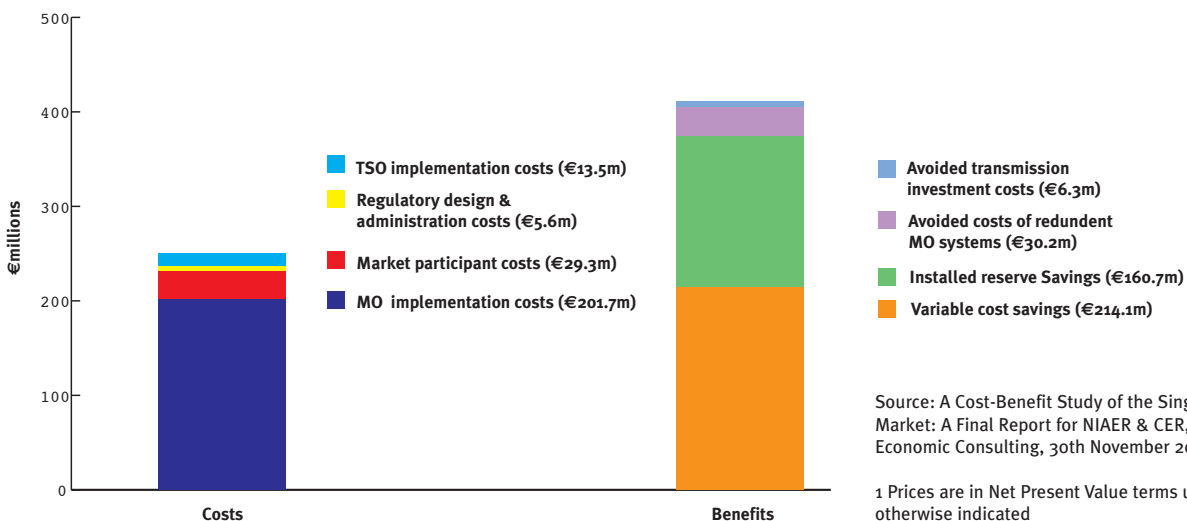
The main costs of SEM implementation comprise market operator implementation costs, market participant costs, TSO implementation costs and regulatory design and administration costs. Market Operator implementation costs are by far the largest item, accounting for over 75% of the total costs.

The benefits of SEM implementation consist of variable cost savings (i.e. fuel, CO<sup>2</sup> and import costs), installed reserve ratings (i.e. efficiencies in generation investment decisions), avoided costs of redundant market operator systems and avoided transmission investment costs. The variable cost savings and installed reserve savings are by far the largest items, accounting for over 90% of the total benefits. The variable cost savings are split more or less evenly between savings from better use of the north-south interconnector and improved ESB Power Generation availability under the SEM. A number of scenarios are used for average availability of ESB Power Generation's conventional plant. The first assumes a phased improvement from 78% in the business-as-usual scenario to 86% two years from the implementation of the SEM. In addition two more negative

variants are used assuming improvements from 78% to 84% after three years and 78% to 82% after five years, giving a range of overall benefits of €332-411 million.

NERA calculates the social net benefits of the SEM to be approximately €155 million. The costs and benefits of the SEM will differ between Northern Ireland and the Republic of Ireland and between market participants and end-users in these two jurisdictions. The overall impact on market participants is a small increase in profits across the island, subject to the amount of any legacy benefits adjustment received by ESB Power Generation. NERA forecasts that end-user prices will be slightly lower under the SEM than under the business-as-usual scenario at an all-island level, as well as within each jurisdiction, indicating that market price reductions will more than offset the costs of implementing the SEM, again subject to the amount of any legacy benefits adjustment received by ESB Power Generation. The majority of the social net benefit of SEM implementation will be captured by consumers (€127 million), with a fairly even split between consumers in both regions. A range of other benefits will also accrue from the SEM, including: improved competition and reduced market power, improved co-ordination of transmission operation, better management of loop flows in the future, environmental savings, and enhanced effectiveness of regulatory institutions from shared experience.

### COSTS & BENEFITS OF SEM IMPLEMENTATION





## *Market Power Mitigation in the Single Electricity Market (SEM)*

Two decisions papers were issued in December 2006 on the Directed Contract Quantification Methodology and Market Monitoring in the SEM.

### **Market Monitoring**

The Market Monitoring Unit (MMU) will be a single body for the SEM and will have a level of operational independence from the Regulatory Authorities but will be required to report directly to the Regulatory Authorities through the SEM regulatory arrangements. It will be governed through the SEM joint regulatory arrangements and will monitor the entire market. Upon the appointment of the MMU Manager, guidelines will be published on how the MMU is expected to interface with market participants and the MMU will define the relevant boundaries between the spot and contracts markets and between the responsibilities of the Regulatory Authorities (including the MMU), the competition and financial authorities. Although the SEM spot market will require dedicated monitoring, this will not apply to the contract market which is not a mandatory or specialised market. The MMU will not have an enforcement or adjudicating role (this will rest with the Regulatory Authorities) and while it will likely form its own processes, these will not be formal investigative processes. It will publish quarterly market assessments with the frequency of these assessments reviewed following one year of operation. Although patterns will be the main trigger for investigations, the MMU will be able to initiate investigations based on single events when the impact warrants such an investigation. It will have no special role with regard to proposed rule changes but will be able to propose rule changes. Market data on individual bids will be released with a one day delay pending the outcome of a current consultation on commercially sensitive data.

### **Directed Contracts: Price, Form and Allocation**

In response to the industry comments the Regulatory Authorities have developed a revised plan for directed contracts in the SEM. They have modified the fuel hedging window to provide for concerns that it was too short to allow for orderly hedging, have modified the timeline to allow for greater lead time with respect to providing information on contract eligibility, and have clarified open questions. Changes to the timeline include notification of the final form and pricing structure by March 2007, publication of indicative information on quantities, eligibility and indicative prices by May 2007, an extension

of the hedging window with the close of the window three months prior to the Contract Start Date. The modifications are intended to solve specific concerns with respect to feasibility and also to provide for a timeline that will be more consistent with supply contracting practices and will not require a single point decision on directed contract commitment. The final plan is also responsive to entities that had serious concerns about committing to contracts before final index adjusted prices were fixed.

### **Directed Contract Quantification Methodology**

The Herfindahl Hirschman Index (HHI) will be used to develop the quantity of directed contracts, with quantities set by quarter based on the month in the quarter with the highest quantity. The HHI threshold will be between 1000 and 1,500 with the Regulatory Authorities leaning towards a lower HHI level as a result of the low elasticity of electricity spot markets, the disproportionate contribution of a dominant player to the HHI, computational assumptions and limitations on the ability to develop perfect data, the ringfencing decision and an untested new market. All units that have the potential to profit from higher market prices will be included in the HHI calculation and those units with common ownership will be included as a single entity. To determine market share the Regulatory Authorities will view three methods once the PLEXOS model has been validated. These methods are system marginal price (SMP) compared to unit short-run marginal cost (SRMC), SMP compared to unit average variable cost, and forecast unconstrained generation. The NERA ringfencing recommendations will be adopted and the Regulatory Authorities will now be implementing the directed quantification methodology following the validation of the PLEXOS model and expect to be able to inform the industry of quantities in April 2007.

## *Capacity Payment Factors in the SEM*

The Regulatory Authorities' have set out their response to comments received and conclusions on capacity payment factors in a decision paper published in December 2006. For the determination of the ex-post margin the Regulatory Authorities propose that only plant eligible to receive payments under the capacity payment mechanism (CPM) should be used to determine the total availability. The measure of availability to be used in the determination of the ex-post margin should be Eligible Availability as this is the availability against which payments are made under the CPM. It is also proposed that demand should be measured as the sum of metered generation of all generator units eligible to receive payments under the CPM. For the

determination of the ex-ante margin the Regulatory Authorities proposed an approach similar to that being proposed for the determination of the Capacity Requirement which would take a capacity value for each generator unit and adjust the availability to account for planned and forced outages. The Regulatory Authorities are looking to pursue the use of look-up tables for the determination of LOLP values with decisions on the number of tables and the shape of the curves pending the outcome of the consultation on the LOLP curves which will follow completion of the modelling work currently being undertaken. The Regulatory Authorities consider that a longer-term measure of availability should not be used in the determination of the ex-post LOLP values. The Regulatory Authorities remain of the view that while in theory it is possible for a generator to be able to manipulate the determination of ex-post LOLP values by withdrawal of availability, the degree of uncertainty coupled with the potential downside financial risks associated with the adoption of such a bidding strategy are sufficiently significant that it is unlikely any generator will adopt such a policy. Nonetheless it is the intention of the Regulatory Authorities that the Market Monitoring Unit will monitor any potential abuse and will take the relevant action should such behaviour be identified. The Regulatory Authorities also believe the allocation between the Fixed, Variable and Ex-Post elements should be as proposed in the consultation, i.e. Fixed – 30%, Variable – 40% and Ex-Post – 30%.

### *Regulators approve TSOs proposals on continuation of existing Demand Side Management*

The Regulatory Authorities have approved EirGrid and SONI's proposals and recommendation to allow continuity of existing demand side management programmes in both jurisdictions to contribute to security of supply in the SEM. While in the medium to long term, price signals in the SEM should provide incentives to encourage demand response, in the interim non-market demand side management schemes should be maintained to ensure security of supply. The two TSOs view Interruptible Load (IL) and Short Term Active Response (STAR) as an ancillary service which should continue in its present form. They recommend retaining Powersave for an interim period to provide emergency load relief during periods of generation plant shortfall and to prevent load shedding of consumers. Both TSOs wish to retain WPDRS in the immediate future unless regulated time of day tariffs are introduced. SONI will consider extending WPDRS to Northern Ireland. SONI/EirGrid perceive tariff

based DSM schemes such as WDRI and Nightsaver to be an integral part of the market which should be continued at the discretion of suppliers and recognise the system benefits that are derived from Economy 7 and the Auto Heat scheme. The TSOs propose that the interim arrangements should not continue indefinitely and suggest that sufficient time be given to allow due consideration of the behaviour of demand side bidding and system security issues in the SEM. Following this consideration period a decision on the longer term arrangements for demand side management should be made. SONI/EirGrid estimate that this decision should take place 18 months after the opening of the SEM. This time period should allow sufficient time to determine the demand side bidding and system security behaviour over two winter periods in the SEM.

### *Transition from the current market to the SEM*

A document has been published setting out the transitional approach from the current bilateral contracts market to the implementation of the SEM from the period from the first exercise of the powers to implement the SEM, SEM 'Go Active'.

SEM Go Active is scheduled to begin on 3rd July 2007. From this date the Regulatory Authorities and the Secretary of State, Northern Ireland will start to require licensees to take the necessary steps to prepare for SEM Go-live. The Joint Regulatory Committee (JRC), responsible for the regulation of the SEM, will also be established on this date.

SEM Go Live will mark the date when the SEM becomes operational and the full commercial effect of the SEM will be switched on. This is scheduled to occur on 1st November 2007. In order to achieve this date, the following activities must have been completed:

- The necessary regulatory decisions have been or are ready to be enacted to provide the regulatory framework for the SEM;
- The new joint regulatory arrangements have been or are ready to be put into place;
- All necessary licence and contractual arrangements have been or are ready to be put into effect;
- The SMO has been established such that all necessary resources, processes and procedures are in place; the central systems, along with participant interfaces to these systems have been designed, tested, and audited and are ready for full implementation;

- The SMO has advised that market trials have been successful;
- The TSOs have established new working arrangements with each other, with the SMO, and their associated TAO, taking into account the SEM. All systems modifications necessary to support these arrangements have been / are ready to be implemented;
- The Network operators have implemented the new metering arrangements and are able to provide the SMO with metered data for the systems trials;
- Participants have modified their business processes to meet the new requirements under the SEM, have complied with or are ready to comply with their obligations under the SEM legal framework, and have completed any necessary systems modifications to support these processes and enable them to communicate with the central market systems.

A number of readiness programmes will seek to ensure progress towards SEM Go Live proceeds on schedule:

- Central Systems Readiness criteria are comprised of the critical milestones in the implementation of the new systems necessary to support the SEM and the enhancement of existing systems;
- SONI and EirGrid must have established a Single Market Operator (SMO) and created the SMO function;
- The TSOs will need to enter into a System Operators Agreement (SOA), to align transmission system processes in both jurisdictions. Both TSOs must also have implemented or be ready to implement the contractual and process arrangements required under the SEM, including processes to communicate with the SMO and their associated Transmission Asset Owner (TAO) and the IT modifications necessary to support these processes;
- The metering arrangements in both jurisdictions required for settlement of the SEM must be in place, along with the appropriate changes to the associated contracts and codes;
- Governance readiness criteria are comprised of milestones which align market legislation, regulation, contracts and codes;
- The participant readiness criteria are those tasks that must be completed by all participants in order to participate in the SEM. These include the self-certification that business processes and IT systems have been implemented to support trading in the SEM,

participation in Market Trials, accession to and compliance with the Trading & Settlement Code and compliance with the Grid Code.

## *Participant Readiness Facilitation Strategy*

The All-island Project Team has outlined a high level approach that will be taken to ensure participant readiness for the start of the SEM. Implementation of the strategy will require a coordinated approach, managed by the Regulatory Authorities and supported by the TSOs, who are responsible for the implementation of the central systems and the establishment of the Single Market Operator (SMO). The strategy is comprised of the following elements:

- Communication - to ensure that participants are appropriately engaged in the SEM implementation;
- Monitoring Participant Readiness – to monitor participant readiness programmes; and
- Training and Testing – to provide participants with the opportunity to train for the new SEM processes and test their ability to securely connect to, interface with, and exchange data with the market systems

The purpose of the participant readiness monitoring strategy is to set out an approach for the Regulatory Authorities to monitor participant readiness to ensure that this aspect of the SEM implementation will be completed in time for participants to engage in market trials and to prevent any delays to the SEM Go Live on 1st November 2007.

In order to meet the SEM Go Live date, the Regulatory Authorities will require that a certain level of market readiness has been achieved. One of the criteria that will be used to assess overall market readiness will be the level of participant readiness with the Regulatory Authorities issuing self-certification checklists in May 2007.

At the start of SEM Go Active, the Regulatory Authorities will schedule a 'Signing Day', at which market participants will be issued new / amended licences and will be invited to sign up to key industry documents. To participate in the SEM, each participant will, amongst other things, be required to possess the appropriate licences, to have acceded to the Trading and Settlement Code (T&SC) and complied with any transitional agreements.

## ESB PES Tariffs to apply from 1st January 2007

The CER issued a Direction in December 2006 to ESB PES on tariffs to apply from 1st January 2007 up until the start date of the SEM. This Direction has reduced the published tariffs by an average of 7.1% from those proposed in the CER's October Direction, due to savings from a fall in fuel prices, changes to ESB Power Generation's maintenance programme, changes to the estimated sales volumes and more up to date availability estimates. Taking the 7.1% tariff reduction from the approved tariff increase of 19.7% in October means that customers will face a net 12.6% increase in tariff prices in 2007. The total tariff reduction is 0.872 c/kWh broken down into 0.617 c/kWh for all demand purchased by a supplier at the trading point and 0.255 c/kWh in ESB PES energy costs. Between both ESB Power Generation and PES the total cost reduction is estimated at around €170 million between 1st January 2007 and 31st October 2007.

### Average 2007 increases in PES tariffs by customer category

ESB PES TARIFF CATEGORIES	AVERAGE PES TARIFF INCREASE (%)
Domestic	12.6%
Non-Domestic General Purpose	12.5%
Low Voltage Maximum Demand	12.6%
10-20kV STOD	12.5%
38kV STOD	13%
110kV STOD	12.5%
Public Lighting	20.2%
Net Average Increase	12.6%

Source: Direction to ESB PES on Tariffs to Apply from 1st January 2007, CER/06/252, 4th December 2006.

## Top Up Prices determined for 2007

The CER has published its decision on top up and secondary top up prices in 2007. The estimated average annual cost of the Best New Entrant (BNE) price is €88.16/MWh for 2007. The average time-weighted top up price is derived from this assumed average BNE price. A secondary top up multiplier of 1.12 has been determined by comparing the allowable

revenue ESB Power Generation recovers from PES in 2007 with what it would recover from PES at the 2007 top up price, given PES's expected load profile across the 144 separate hours for which top up prices are being set and by scaling each of these 144 2007 top up prices by 1.12. The time-weighted secondary top up price derived using this methodology is €98.74/MWh.

## VIPP7 Non Green Auction Principles Paper is published

The Principles Paper for the 2007 Virtual Independent Power Producer (VIPP) Non Green Auction has been published. The main provisions of VIPP7 include:

- ESB will offer 200 take-and-pay 1MWh per hour contracts with a base-load and peak-load pricing structure available;
- No bidder can be awarded more than 100 contracts in VIPP7;
- Fuel indexation will apply in VIPP7 with ESB Power Generation applying a dead-band to the fuel indexation with one end determined by the January 2007 fuel index and the other calculated using fuel costs and exchange rates submitted to the CER for the September 2006 tariff review;
- The energy price for base-load energy is €47/MWh and peak-load energy €265/MWh;
- The reserve price for base-load contracts is set at €34,310/contract/calendar month (i.e. €47/MWh) payable from the start of the contract with the reserve price for peak-load contracts set at €237.30/contract/calendar month payable prior to the start of the relevant month (i.e. €5.65/MW/peak hour);
- VIPP suppliers are responsible for the payment of all TUoS, DUoS, PSO and Capacity Margin charges;
- VIPP suppliers can buy top up and secondary top up and sell spill;
- The VIPP7 price is based on the PES tariffs with CO<sup>2</sup> costs already factored in;
- The duration of the VIPP contracts will be from 1st November 2006 or 1st January 2007 to the earlier of 31st December 2007 or the start of the SEM.



## Eligibility list for Gate 2 Renewable Generator Connection Applicants is determined

EirGrid submitted a system operator's report to the CER with an initial list outlining those applicants which adhered to the regulator's Direction last June 2006. ESB Networks then submitted a final list on those qualifying for Gate 2 in November 2006. The CER has since approved the applicants proposed by the system operators which qualify for inclusion in Gate 2. This approval was based on an independent technical auditor's report by Sinclair Knight Merz (SKM) which concluded that the 'Gate 2 application process has been undertaken by the system operators in a rigorous and well documented manner and that the findings of the process are consistent with the requirements of the Commission's June 2006 Direction'.

### Group 2 – Summary Table

	Applicants			MW		
	DSO	TSO	TOTAL	DSO	TSO	TOTAL
First 500MW Extensions	32	2	34	375	119	494
	14	10	24	28	165	193
Groupings Outliers	42	5	47	394	212	606
	16	0	16	55	0	55
Successful	104	17	121	853	495	1,348
Unsuccessful	59	17	76	884	783	1,668
Totals	163	34	197	1,737	1,279	3,016

Source: ESB Networks: Final Report by DSO on Eligibility Phase of Gate 2 Group Processing Approach for Renewable Generator Connections, 13th November 2006.

## Minister Dempsey announces publication of Single Electricity Market Bill

The Minister for Communications, Marine and Natural Resources, Mr. Noel Dempsey, has announced the publication of the Electricity Regulation (Amendment) (Single Electricity Market) Bill, 2006. The main provisions of the bill are to:

- Establish a special committee of the CER to be known as the SEM Committee together with a decision-making framework, to enable effective decision-making on market issues;
- Extend the functions of the CER as required for the effective regulation of the SEM;
- Set out the objectives of the Minister and the CER with regard to issues affecting the SEM;
- Provide a licensing framework for the establishment of a Single Market operator; and
- Provide for a license modification process to enable licensees to participate in the new market.

### IRISH ENERGY DEVELOPMENTS

The Minister noted that:

- The Bill provides for the legislative underpinning in Ireland of the new Single Electricity Market with similar legislation being introduced in Northern Ireland;
- The development of the SEM is a real opportunity to maximise efficiencies and create economies of scale in the energy sector to the benefit of consumers and business in both jurisdictions;
- The development of the SEM is in line with the development of the EU internal energy market and the move to regional energy markets;
- The SEM will over time facilitate competition, remove market distortions and minimise electricity costs to consumers whilst providing an attractive location for new generation, thereby improving security and reliability of energy supply throughout the island of Ireland;
- There is a strong political commitment on both sides of the border to deliver the SEM by the target date of 1st November 2007 with both governments committed to ensuring the required legislation is in place by spring 2007 to enable the market to commence.

## *EU Commission initiates second phase of infringement procedure against EU Member States*

The EU Commission decided on 12th December 2006 to send 26 reasoned opinions to 16 member states after examining the member states' replies to the letters of formal notice sent in April 2006. This second phase of the infringement procedure for the breach of the 2003 Directives on the opening of the gas and electricity markets concerns Germany, Austria, Belgium, the Czech Republic, Estonia, Spain, France, Greece, Ireland, Italy, Lithuania, Latvia, Poland, Sweden, Slovakia and the United Kingdom.

The principal problems in transposing the legislation that have been observed are the following:

- persistence of regulated supply tariffs for eligible clients, which blocks the arrival of newcomers and prevents the free choice of supplier;
- insufficient separation between the vertically integrated network operators and production and supply activities, especially as regards functional separation which aims to guarantee the independence of the network operators and prevent any discrimination with regard to network access;
- discriminatory access of third parties to the network, and especially maintained preferential access for the dominant operators' historical contracts;
- insufficient regulator competencies, especially as regards network access and tariffs;
- absence of notification of public service obligations;
- insufficient indication of the origin of the electricity.

The EU Commission will publish a report containing the results of its analyses in the competition sector in the first quarter 2007.

## *EU Commission unveils Action Plan for Energy Efficiency*

The EU Commission has unveiled an Action Plan for Energy Efficiency which has an overall objective to outline a coherent framework of policies and measures with a view to saving a substantial part of the 20% of EU annual primary energy consumption by 2020. It proposes a selection of cost-effective energy efficiency improvement initiatives to be put in place and

implemented in the coming six years. The Action Plan is in response to a call from Heads of State and Government at the Spring European Council in 2006 for a realistic Energy Efficiency strategy. The need for a strengthened policy aimed at more energy efficient consumption and production patterns was underlined in the EU Commission Green Paper on 'A European Strategy for Sustainable, Competitive and Secure Energy'. The EU Commission notes that realising the 20% potential to 2020, will result in large energy and environmental benefits with CO<sub>2</sub> emissions reduced by 780 Mt CO<sub>2</sub> with respect to the baseline scenario, more than twice the EU reductions needed under the Kyoto Protocol by 2012. It estimates that additional investment expenditure in more efficient and innovative technologies will be more than offset by around €100 billion in annual energy savings.

## *North-west European countries cooperate on regional market integration*

On 6th November 2006, the regulators of Ireland (CER), France (CRE), Great Britain (Ofgem) and Northern Ireland (Ofreg), in collaboration with the four TSOs in these areas EirGrid, Réseau de Transport d'Electricité (RTE), National Grid (NG), and System Operator Northern Ireland (SONI), published a package of seven documents that deal with the four priority issues for the France-UK-Ireland electricity Regional Energy Market, plus three additional complementary topics.

Following discussion in Spring 2006 with TSOs, stakeholders and representatives of the EU Commission and member state governments, the following issues were identified as priority issues to be pursued in order to enhance integration of the four national markets:

- compliance with Congestion Management Guidelines under Regulation 1228/2003;
- co-ordination of capacity allocation on electricity interconnectors;
- enhancing reciprocal access to balancing markets; and
- wholesale market transparency.

In order to complement these issues, the four regulators have in addition explicitly considered the following topics:

- imbalance pricing;
- transmission tariffication;
- analysis of interconnector flows.



TSOs have written a paper for each of the four priority issues. Regulators have written papers concerning imbalance pricing, transmission tariffication, and efficiency of interconnectors. The TSO's first paper 'Gap analysis of current compliance with the Congestion Management Guideline' concerns an assessment of compliance of present practice on interconnectors with the Congestion Management Guidelines. The TSO's second paper 'Options for further development and coordination of existing cross-border arrangements' builds on the TSO's first paper and puts forward options for dealing with areas where current congestion management practice in France, UK or Ireland does not meet the requirements of the Congestion Management Guidelines. The TSO's third paper 'Conceptual options for achieving reciprocal access to balancing arrangements across the region' puts forward options for ways in which TSOs and market participants might trade in balancing market services across borders. The TSO's fourth paper 'Situation report on wholesale market transparency' makes an assessment of current levels of wholesale market transparency within the territories. It uses the ERGEG draft Guidelines for Good Practice on Information Management and Transparency as an input for this assessment.

The regulators' first paper 'Electricity imbalance pricing – comparison of regimes and effects across France, GB, Republic of Ireland and Northern Ireland' and makes a first assessment of the imbalance rules applying in each territory with a view to understanding if significant differences exist that might tend to affect trading decisions were full reciprocal access to balancing markets to exist. In that sense this paper complements the TSO's third paper. The regulators' second paper 'National transmission tariffication systems' outlines the current national transmission tariffication systems across the four territories together with a first assessment of the extent to which differences in approach might affect cross border trade. The regulators' third paper 'Analysis of interconnector flows on the Interconnector Angleterre' makes a first assessment of the extent to which the electricity interconnector between France and the UK is used efficiently, and puts forward some first hypotheses to explain the observed levels of efficiency. This paper therefore complements the first and second of the TSO's papers.

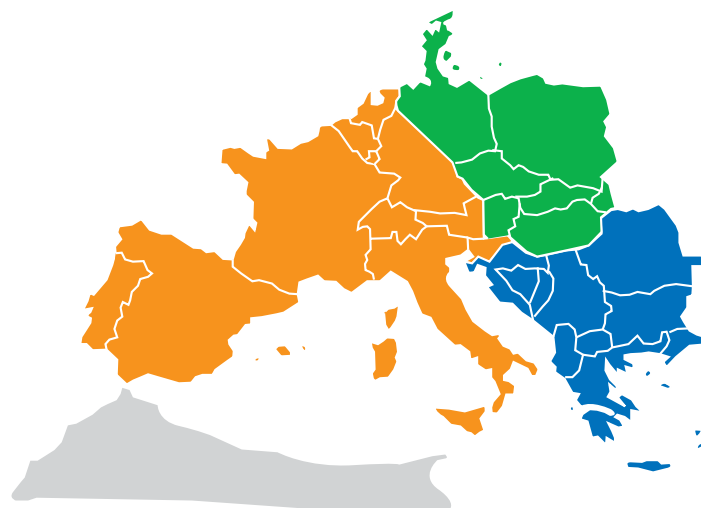
From 19th January 2007, the four regulators will consider responses and use these to aid the parallel work being undertaken on congestion management co-ordination and reciprocal access to balancing markets. In parallel, TSOs will use inputs received in undertaking the work necessary to achieve compliance with the Congestion Management Guidelines.

## 4th November incident in Europe requires load-shedding to avert blackout

On 4th November 2006, a number of lines in central Europe tripped causing the European network to split into three unconnected areas:

- the western area (western Germany and Austria, Slovenia, Benelux, Switzerland, France, Spain, Italy, Portugal, part of Croatia);
- the north-eastern area (eastern Germany and Austria, Poland, Czech Republic, Slovakia, Hungary);
- the south-eastern area (Greece, Albania, Macedonia, Bulgaria, Serbia, Montenegro, Bosnia-Herzegovina, eastern Croatia).

The interconnection between Spain and Morocco also tripped, to protect the power system in Morocco, Tunisia and Algeria.



- Western area: under frequency
- North-eastern area: over frequency
- South-eastern area: under frequency



### Load shed in European Systems

COUNTRY	TSO	LOAD SHED MW
Austria	APG	1,500
Austria	Tiwag Netz	40
Belgium	Elia	800
France	RTE	5,200
Germany	Eon Netz	400
Germany	RWE TSO	2,000
Italy	Terna	1,500
Netherlands	Tennet	400
Portugal	REN	500
Spain	REE	2,100
Slovenia	ELES	100

Sources: Union for the Coordination of Transmission of Electricity (UCTE) and Reseau de Transport d'Electricite (RTE).

### Interim Reports on the 4th November Incident

#### UCTE

The Union for the Co-ordination of Transmission of Electricity (UCTE) in its interim report noted that the incident on 4th November 2006 constituted the 'most severe disturbance' in its history. Its investigations so far have indicated two primary causes as well as five other critical factors. The primary causes were non-fulfillment of the n-1 criterion and inappropriate regional inter-TSO co-ordination during the event. The five critical factors were:

1. Generator related issues with a significant amount of generation units tripping due to the frequency drop in the west area of the UCTE system, contributing to the deterioration of system conditions;
2. Limited range of action available to dispatchers for handling grid congestions;
3. Poor TSO/DSO co-ordination in the context of defence and restoration plans;
4. Inappropriate co-ordination of resynchronisation procedures during the event;
5. Training of dispatchers needs to be improved.

#### ERGEG

The European Regulators Group for Electricity and Gas (ERGEG), published its Interim Report on the Blackout in response to Commissioner Piebalgs' request to ERGEG, to investigate the incident and to advise on the lessons that can be learned from it. A final report will be published in February 2007.

In its review, ERGEG reports that three main causes gave rise to a sequence of events which led to a serious disruption in European power supply on 4th November: (1) the security rule (n-1) was violated, (2) lack of actions (before and) directly after the switching off of the double line (3) inappropriate regional coordination among Transmission System Operators (TSOs) during the event.

In outlining its findings and recommendations, ERGEG noted that:

- The disturbance might have been avoided if co-ordination among grid operators had been better;
- European Commission should propose legally binding operational security rules;
- The Commission should develop a framework for the electricity network as part of its strategic energy review scheduled for publication on 10 January 2007;
- EU electricity grid operators must improve their co-operation better to keep the lights on and be publicly accountable for their actions;
- EU Grid operators should be publicly accountable to regulators for their actions;
- Lessons from the Italian blackout (2003) have not been followed through.

## October

### EU

- European Technology Platform for Wind Energy is launched
- EU Commission presents Energy Efficiency Action Plan to reduce energy use by 20% by 2020
- Regulators in Belgium, France and the Netherlands announce they are ready to proceed with the implementation of market coupling between all three countries
- European Regulators' Group for Electricity and Gas (ERGEG) meets with President of the EU Commission on the need for new energy legislation

### France

- French electricity Association (UFE) asks the system operator, RTE, to publish power generation data on its website

### Italy

- Minister of Economic Development declares fuel mix in generation has to be rebalanced to avoid Italian over dependence on gas

### New Zealand

- Electricity supplier Vector proposes settlement with Commerce Commission following regulator's intention to declare control on the back of findings that Vector was overcharging customers

### Poland

- Economy Minister decides to reduce power of energy regulator (URE) in 2007 from approval of rates proposed by power companies to having an opinion on what the rates should be

### Portugal

- Minister of Economy approves final award of 1,200MW of wind capacity to consortium led by EDP, leading to total investment of €1.75 billion

### Scandinavia

- Nordel releases energy balances for 2009 and power balances for 2009/10 for the Nordic TSOs

### UK

- Department of Trade and Industry (DTI) launches Review of Security of Gas Supply
- Construction starts on Scottish Power's £300m Whitelee Windfarm
- Energy regulator Ofgem publishes its conclusions on Financing Networks consultation
- Ofgem outlines 'next steps' for microgeneration in the UK

### US

- Federal Energy Regulatory Commission (FERC) approves incentive rates for New England transmission expansion
- California Public Utilities Commission develops new emissions standards for baseload generation
- PJM Interconnection requests that the Secretary of Energy designate three National Interest Electric Transmission Corridors within the PJM region

## November

### Australia

- Australian Energy Market Commission issues Electricity Transmission Revenue Final Rule Determination

### EU

- Major blackout hits European network on 4th November affecting over 10 million customers
- EU and the countries of the Black Sea and Caspian Sea regions agree on a common energy strategy
- EU Ministerial Council reiterates commitment of all the Parties towards market reforms and agrees upon concrete national roadmaps for the development of the EU energy market
- Moldova, Norway, Turkey and Ukraine join the Energy Community as Observers
- President Barroso and the President of Azerbaijan sign a Memorandum of Understanding on energy partnership
- France, Great Britain and Ireland launch joint consultation on regional energy market integration
- EU Commission approves 10 national allocation plans for compliance period 2008-2012
- EU Commission creates working group to analyse potential changes to the emissions trading scheme
- EU Commission proposes new guidelines for cross-border electricity trade based on 'use it or lose it' principle
- Nordic and German grid operators and exchanges announce initial agreement to develop an implicit auction with market coupling following by the end of the year
- The Winter Outlook Report of national and regional power balances in Europe is presented by the Union for the Coordination of Transmission of Electricity (UCTE), Nordel, the Baltic countries, Great Britain and Ireland's TSOs

### Germany

- The upper house of parliament passes 'infrastructure planning acceleration law' placing the costs of connecting offshore wind on the network operators instead of the windfarm investors
- Grid operator RWE TSO Strom criticises economy ministry decree in favour of feed-in guarantee for new plant at the expense of older plant



### International

- International Energy Agency publishes its World Energy Outlook 2006

### Italy

- Energy regulator AEEG decides to replace part of the CIP6 mechanism promoting renewable energy with new criteria that reduce the incentives available

### Netherlands

- Unbundling law is passed on 21st November 2006 forcing integrated utilities to hand over operational control of their high-voltage grids but with ownership of the assets remaining intact

### UK

- Stern Report commissioned by the Chancellor of the Exchequer is published reviewing the economics of climate change
- DTI consults on 'Energy billing and metering: changing customer behaviour'
- Ofgem consults on 'Energy Review Implementation: Updating the electricity generating stations and overhead lines inquiry procedure rules in England and Wales'
- DTI outlines plans to reduce the energy used in UK homes
- DTI outlines new rules for planning inquiries for large-scale electricity projects
- Ofgem alters calculation of balancing charges on the UK power transmission grid
- DTI and Ofgem publish Joint Review on Distributed Energy
- Ofgem releases Sustainable development Report 2006
- Ofgem/DTI consult jointly on licensing offshore electricity transmission

### US

- FERC finalizes Electric Transmission Siting Rule
- Federal and State regulators convene collaborative dialogue on coordination of electricity demand response policies
- FERC authorizes incentive rates for New England transmission expansion
- New PJM and New York ISO study confirms implementation of coordinated transmission organisations result in savings to consumers between \$430 million and \$1.3 billion per year
- FERC accepts Midwest ISO's proposed methodology for allocating the costs of new transmission infrastructure

## December

### EU

- EU Commission adopts new rules for managing electricity cross-border trade in the EU
- EU Commission sends 26 reasoned opinions to 16 Member States initiating second phase of the infringement procedure for breach of the 2003 Directives on opening energy markets

- Russia and the EU agree to join efforts to promote energy efficiency at second meeting of the Permanent Partnership Council (PPC) on Energy
- Association of European Transmission System Operators (ETSO) comments on ERGEG's Public Consultation Paper 'Cross border framework for transmission network infrastructure'
- UCTE assesses the compliance of its members with its binding rules for first Compliance Oversight Report
- UCTE and ERGEG publish interim reports on 4th November blackout
- ETSO launches ETSOVista platform to provide European-wide data transparency

### Germany

- 16 state economy ministers unanimously call for obligatory ownership network unbundling and enforced sale of some generation assets from incumbents to independent parties

### Netherlands

- Tennet signs MoU with RWE Transportnetz in Germany for new €70 million 60km link

### New Zealand

- Ministry of Economic Development releases draft New Zealand energy strategy to 2050 - 'Powering our future: towards a sustainable low emissions energy system'

### Switzerland

- On 15th December Swissgrid commences role as Switzerland's national grid operator

### UK

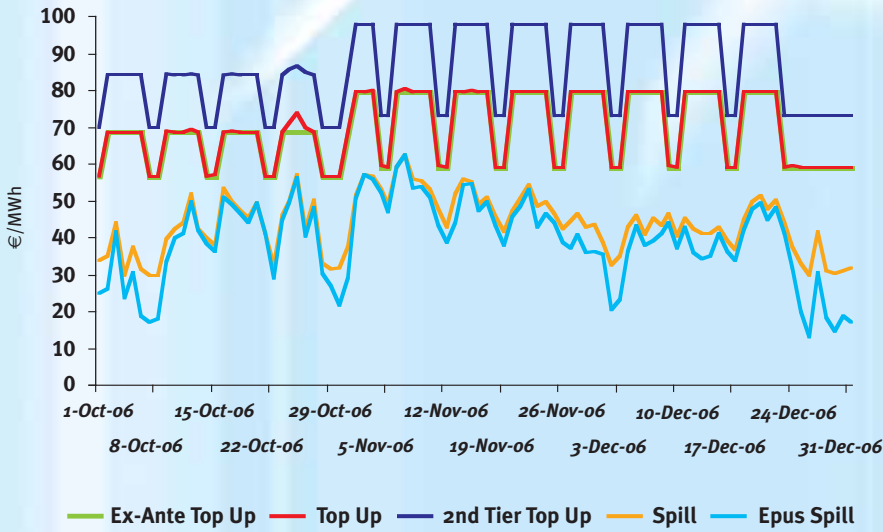
- DTI consults on 'Resilience of overhead power line networks'
- Initial consultation by DTI and Ofgem commences on a security standard for offshore networks
- Ofgem/ DTI consult jointly on a security standard for offshore transmission networks
- Ofgem releases final proposals for the Transmission Price Control Review
- Ofgem outlines initial proposals for System Operator incentives from 1st April 2007

### US

- National Association of Regulatory Utility Commissioners (NARUC) applauds FERC Discussion on Transmission Pricing Reform Policy
- Production Tax Credit (PTC) is extended for an additional year to December 2008
- California ISO extends implementation date of Market Redesign and Technology Upgrade (MRTU) program from November 2007 to January 2008

# Market Prices

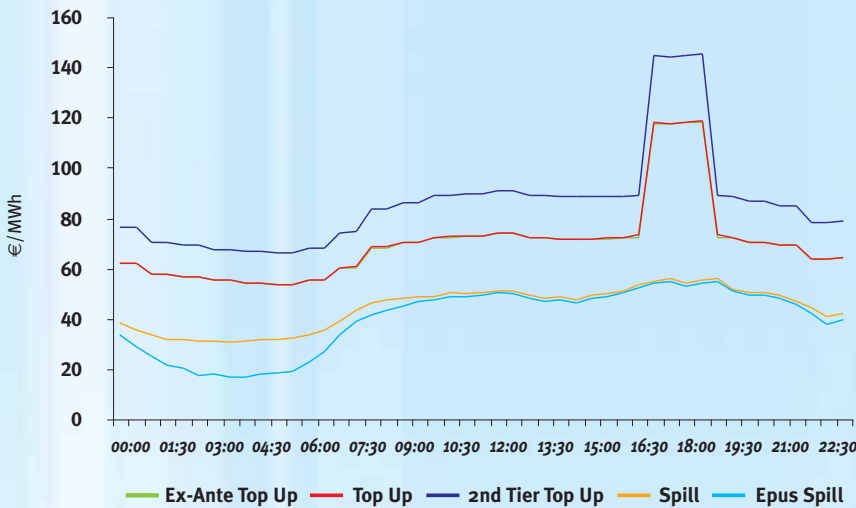
MARKET PRICES October-December 2006



The average daily price of spill in the final quarter 2006 was €43.85/MWh. This is down from €50.72/MWh during the previous quarter and significantly less than the spill price from the same quarter in 2005 when the spill price was €73.89/MWh. Prices were around €10/MWh higher in November than in October or December 2006.

Unlike the spill price, top up prices increased from the third quarter to the fourth. The administered ex-ante top up price was €69.47 with top up slightly higher at €69.63/MWh. The secondary top up price averaged €85.50/MWh. The gap between the top and secondary top up price has increased as the spill price has fallen as top up is reset less often to equal spill.

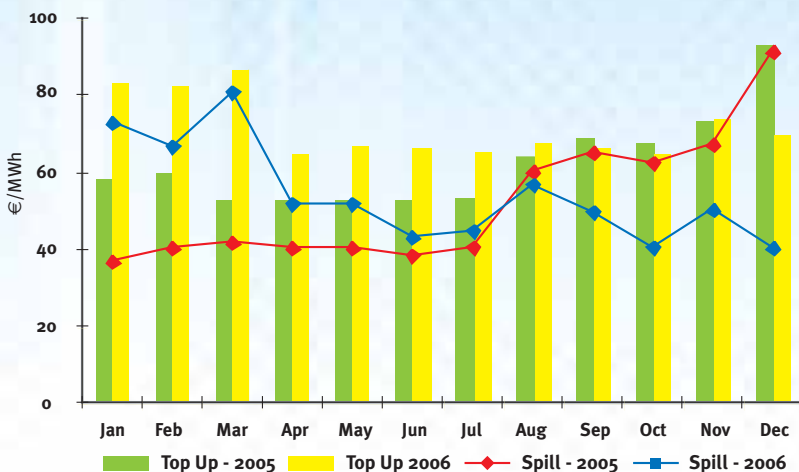
MARKET PRICES BY TRADING PERIOD October-December 2006



As usual, any differences between the EPUS derived spill price and the spill price tended to occur during the night with the highest discrepancy between the spill price and top up prices occurring during the periods of peak demand when top up and secondary top up more than doubled the price of spill.

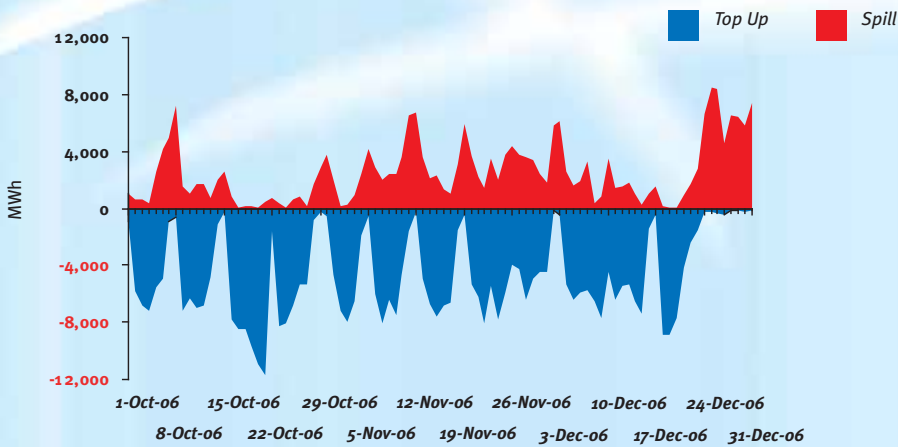
Taking 2006 as a whole, imbalance prices were up on prices from the previous year with spill increasing from €53.31/MWh to €54.31/MWh and top up from €63.86/MWh to €71.78/MWh. The general increase in 2006 top up prices was primarily due to higher prices in the first half of the year. The spill price trend in 2006 was very different to that found in 2005. The year 2005 saw a significant rise in the spill price in the second half of the year due to high fuel prices. However, this high price has continued to fall over 2006 to more traditional levels as fuel prices have moderated.

2006 MARKET PRICES COMPARED TO 2005



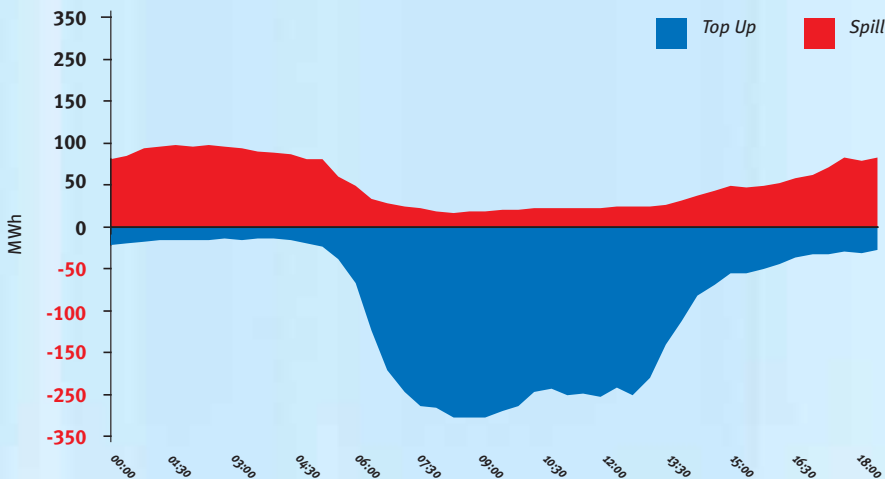
# Imbalance Volumes

VOLUMES OF TOP-UP AND SPILL October-December 2006



Just over 437GWh of top up energy was purchased during the final quarter 2006, well down on the 893GWh purchased during the previous quarter or the 1,025GWh purchased during the last quarter in 2005. Spill volumes were up on the third quarter 2006 from 199GWh to 232GWh and on the 91GWh sold in the fourth quarter 2005. Over the final quarter top up volumes were falling from 165GWh in October to 115GWh in December 2006 with spill volumes increasing from 47GWh to 96GWh. The average daily volume for top up and spill respectively was 4,751MWh and 2,517MWh.

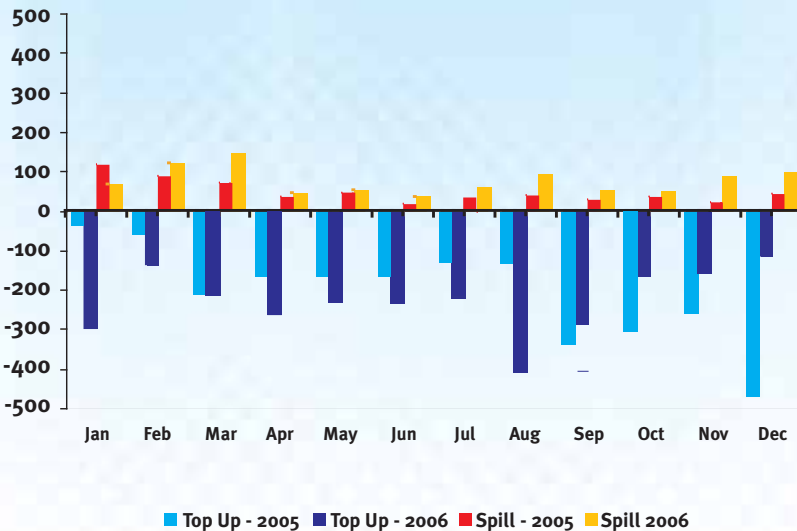
VOLUMES OF TOP-UP AND SPILL BY TRADING PERIOD October-December 2006



On a trading period basis, nearly 100MWh was sold as spill during the night times hours with twice this volume purchased as top up during the main part of the day.

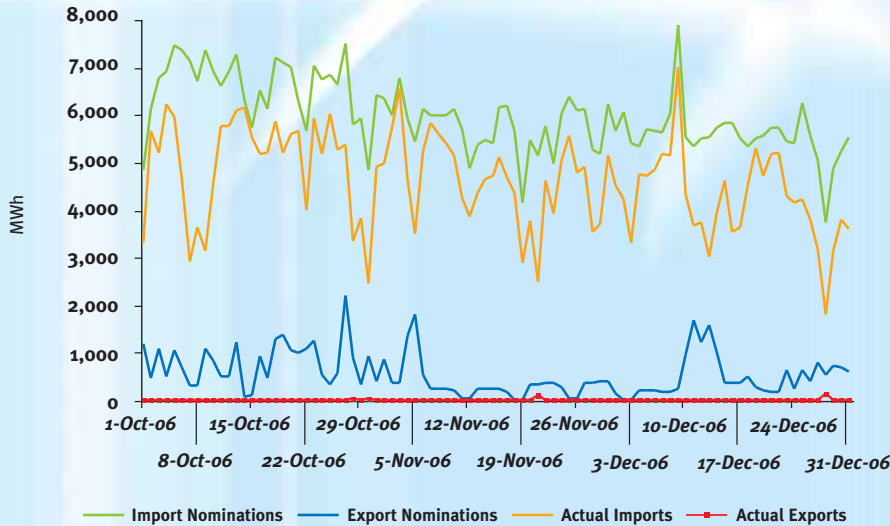
In 2006 the total top up volume exceeded 2,707GWh with spill volumes exceeding 887GWh. This equates to 7,417MWh for top up and 2,431MWh for spill if taken as a daily average.

2006 IMBALANCE VOLUMES COMPARED TO 2005 - GWH



# Interconnector

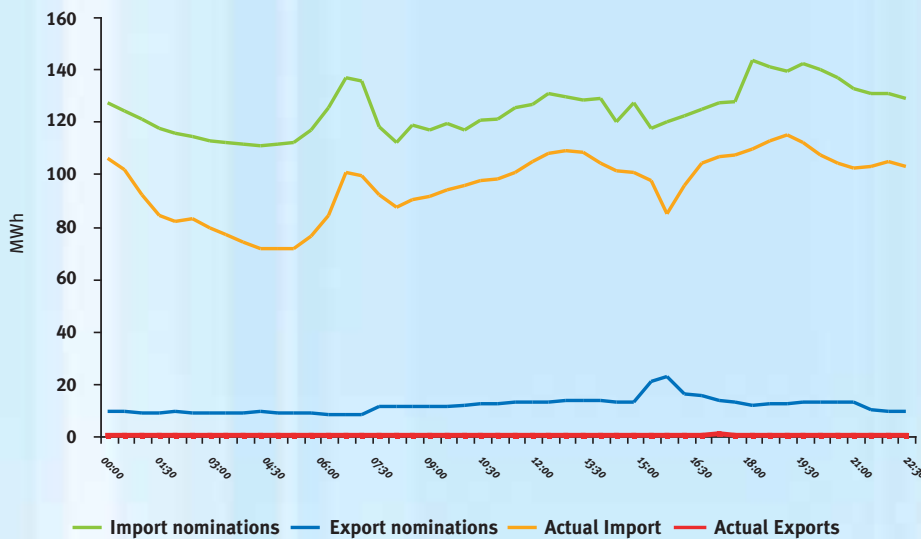
## TOTAL DAILY VOLUMES AND NOMINATIONS October-December 2006



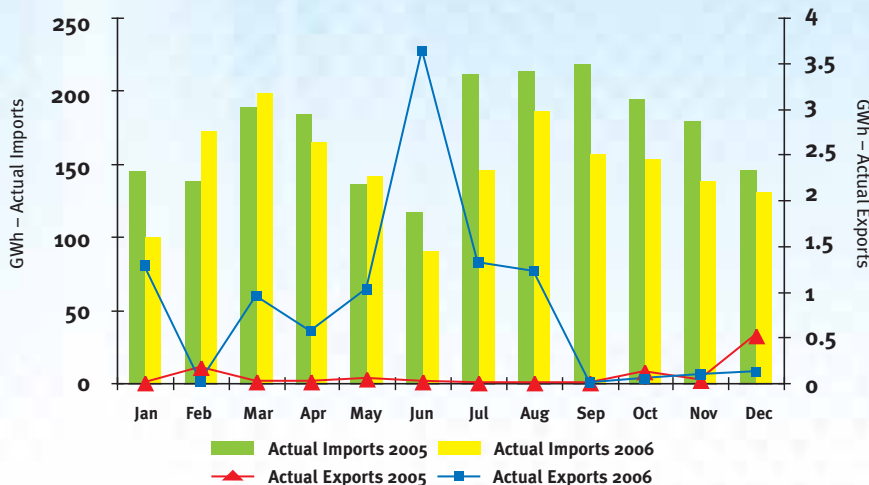
In the fourth quarter 2006 around 422.5GWh of energy was imported over the North-South interconnector with 251MWh exported to the North in return. This results in daily imports of 4,593MWh and 3MWh in exports. Import volumes have been falling from 153GWh in October to 131GWh in December 2006.

Total imports in 2006 came to 1,781.5GWh with exports reaching 10.26GWh. On a daily basis this means that 4,881MWh was imported into the Republic in 2006 with 28MWh exported to the North. Imports in 2006 were down therefore on 2005 figures of 2,074GWh but exports increased significantly from less than 1GWh in 2005 to over 10 in 2006. Exports are however, still negligible when compared to import volumes.

## VOLUMES AND NOMINATIONS BY TRADING PERIOD October-December 2006

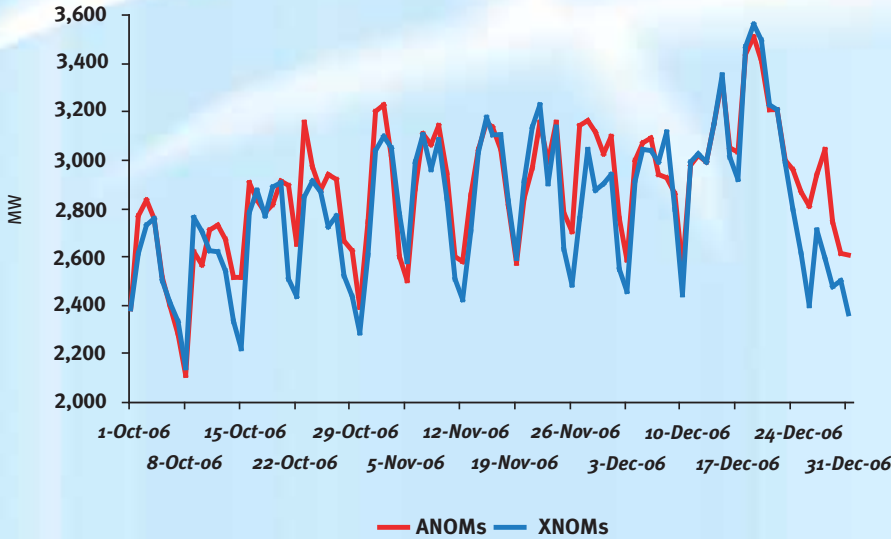


## 2006 INTERCONNECTOR VOLUMES COMPARED TO 2005 - GWh



# Ex-post Unconstrained Schedule (EPUS) Nominations

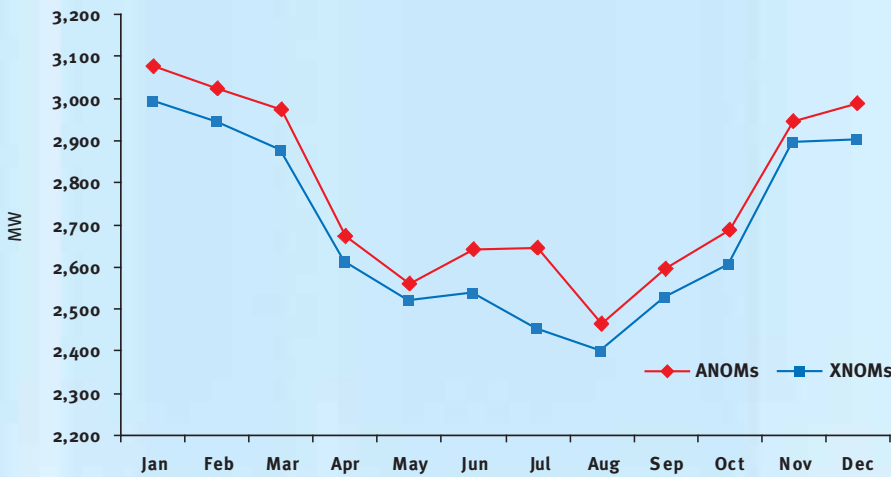
AVERAGE DAILY GENERATOR NOMINATIONS IN EPUS October-December 2006



The average daily ex-ante nominations (ANOMs) submitted by generators in the last quarter 2006 were 2,872MW. The ex-post nominations (XNOMs) determined by EPUS were 2,798MW. XNOM values tended to track generator's desired level of running quite closely for the main part of the day with the main differences occurring at night when the required nomination values from EPUS were less than generator's desired level of operation.

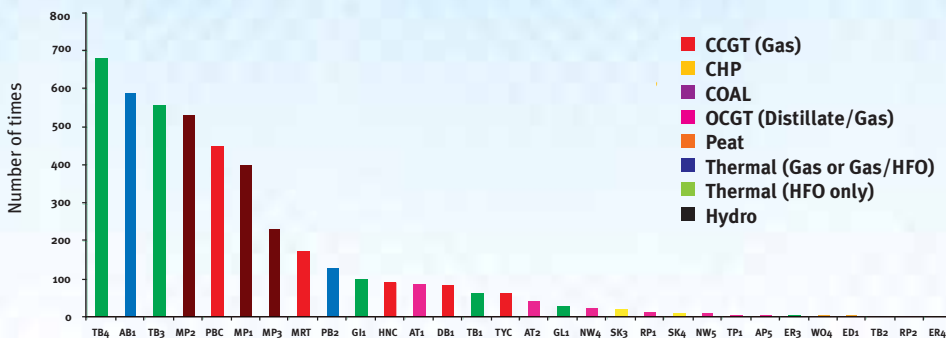
In 2006, the average daily ex-ante and ex-post nominations were 2,771MW and 2,685MW respectively, peaking during the winter months from November to March when average daily ex-ante nominations exceeded 3,000MW with ex-post nominations of 2,920MW.

2006 EPUS NOMINATIONS



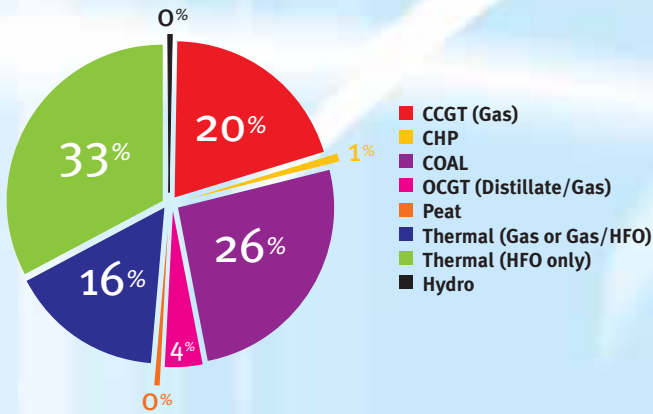
## Spill Unit

GENERATOR UNITS SETTING THE SPILL PRICE October-December 2006

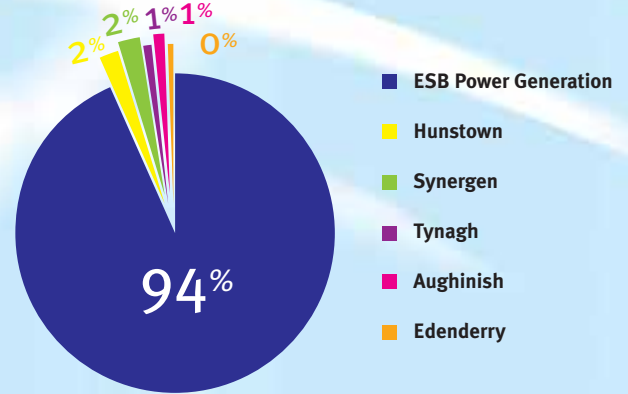


Tarbert's unit TB4 set the spill price most often in the last quarter 2006, setting it over 15% of the time. Thermal units set the price in nearly one out of every second trading period with Thermal (HFO only) units setting the spill price 33% of the time. Thermal units are followed by Moneypoint's coal-fired units - 26%, combined-cycle gas plant - 20%, and open-cycle plant - 4%. CHP, Peat and Hydro between them made up just over 1% of the price-setting plant.

### FUEL TYPE SETTING THE SPILL PRICE

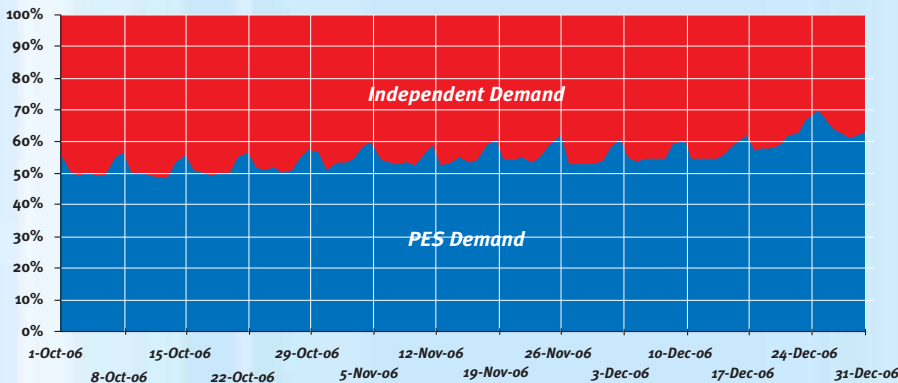


### GENERATOR SETTING THE SPILL PRICE



## Demand – Market Share

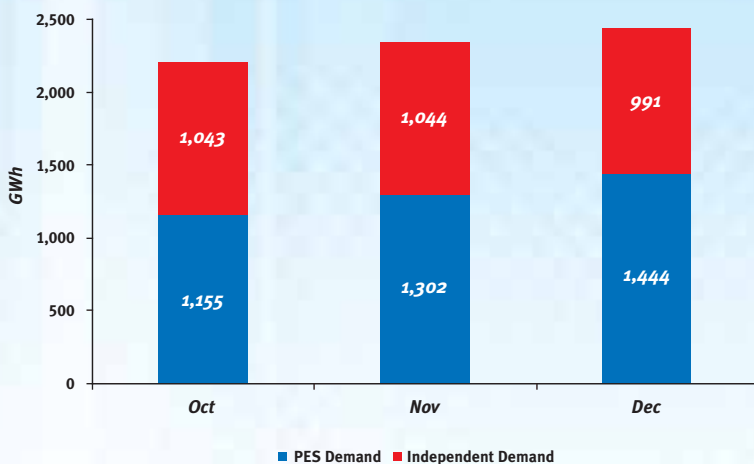
### DEMAND – MARKET SHARE October-December 2006



ESB PES and the independent suppliers met nearly 7TWh of electricity demand in the last three months of 2006 with PES supplying 56% and the independent sector 44%. PES's share of the market increased again relative to the independent suppliers as the year ended from 53% in October to 59% in December.

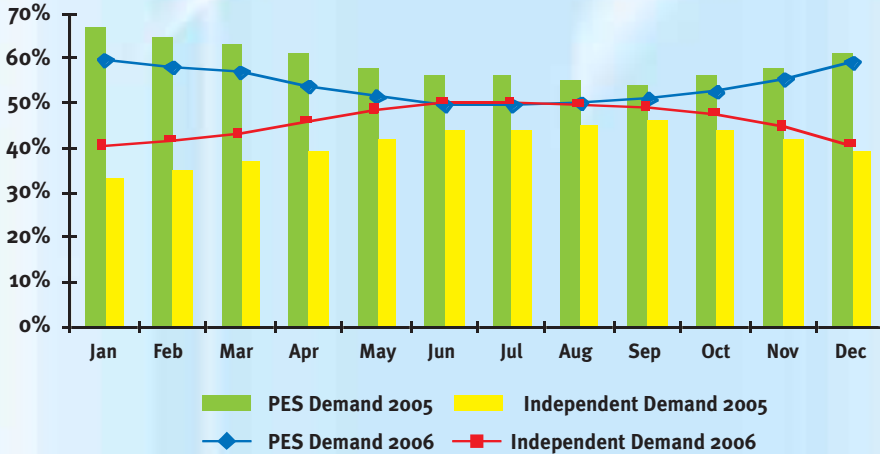
Comparing demand market share in 2006 with the previous year it is obvious that the independent suppliers have increased their share of the market from an average of 41% of the market in 2005 to 46% in 2006. Total consumption in 2006 exceeded 26TWh with over 14TWh met by PES and nearly 12TWh met by independent supply companies.

### TOTAL CONSUMPTION OCTOBER-DECEMBER 2006 - GWh



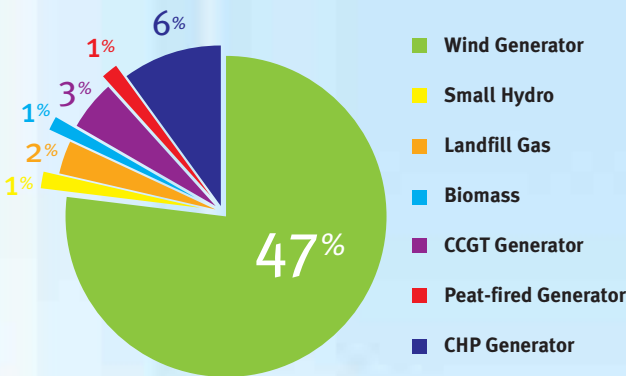
*While every effort has been made in the compilation of this quarterly review to ensure that the information contained herein is correct we cannot accept responsibility or liability whatsoever for any damage howsoever caused by reliance on the information presented here.*

2006 DEMAND COMPARED TO 2005



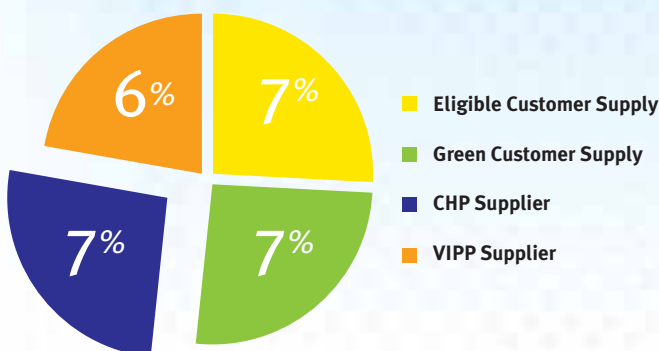
Market Participants

NUMBER OF INDEPENDENT GENERATION PARTICIPANTS IN THE IRISH ELECTRICITY MARKET – END 2006



By the end of 2006 there was a total of 75 participants in the Irish electricity market, broken down into 62 generators and 13 suppliers. Out of 62 generators in the Irish electricity market, all but 10 are green generators with 47 of these wind generators. The 13 suppliers have licences as eligible customer suppliers, green customer suppliers, CHP suppliers and VIPP suppliers with a fairly even spread between them. Some supply customers have more than one supply licence and are therefore in a position to supply different types of energy.

NUMBER OF INDEPENDENT SUPPLIER PARTICIPANTS (BY LICENCE TYPE) IN THE IRISH ELECTRICITY MARKET – END 2006



During the year applications were received from 17 generators and 1 supplier with 16 of these generators becoming new participants in the market. All but one of these were wind generators.