



Commission for Regulation of Utilities

OPENING STATEMENT FOR JOINT OIREACHTAS
COMMITTEE ON CLIMATE ACTION

Tuesday, 9th May 2023

Good morning and thank you for inviting us to join you today.

The Electricity Market and Pricing

At our last Committee hearing, we noted our intent to share with the JOC an update on key retail market indicators following Quarter 1 of 2023. Some of the key trends identified are:

- **Prices:** Falling wholesale prices have resulted in retail prices remaining stable since December 2022, but still at significantly elevated levels compared to pre-2021. Approximately 20% of domestic electricity customers and 22% of domestic gas customers switched supplier in the year Nov 2021-Oct 2022. Switching figures have since declined by more than 50% in both electricity and gas from their peak rates in September 2022

coinciding with the decline in supplier price increases.

- Customer Arrears: The number of domestic electricity customers in arrears remains below pre-Ukraine war levels. The Government Emergency Electricity Credits have had a positive impact on electricity arrears with the level of arrears reducing but have tended to rebound quickly to pre-credit levels. Also, the impact of the credit has had less of an observable impact more recently, due to contributing factors including high prices, elevated winter consumption and the extended moratorium on disconnections.
- Disconnections: The moratorium on disconnections ended on March 31. The CRU does not expect to see any marked rise in disconnections given the thorough process suppliers must follow and the fact that suppliers will not disconnect engaging customers. The CRU

is awaiting the data for customer disconnections for April 2023 and will provide this to the Committee in due course.

The CRU remains very concerned at the impact of high energy prices on households and businesses. The recent reductions in wholesale gas and electricity prices are welcome, and we have seen recent announcements by some suppliers of price reductions in certain customer segments. However, it is important to note that wholesale gas prices remain at over two times the historic norms. Due to supplier hedging, the majority of customers were protected from the worst impacts of the volatility and extremely high prices of 2022, when wholesale gas prices peaked at 10 times the historic norms. However, the same hedging contracts and practices that protected customers can mean that the pass-through of wholesale price reductions to the retail market are not seen for a period of time. While CRU notes that hedging

practices are likely to be significantly different across suppliers we continue to encourage all suppliers to reduce prices as soon as possible.

We note recent coverage of Irish retail prices. The SEAI and Eurostat publish comprehensive EU electricity and gas price comparison data, in line with a methodology established by EU law. These are the price comparisons that CRU considers to be authoritative. Using these comparisons, over the years leading up to 2021, Irish household electricity prices (in the consumption bands most relevant to Ireland), have been at or close to the Euro Area average. But the high wholesale gas prices noted above had a disproportionate impact on the Irish market, with analysis by ACER (the EU Agency for Cooperation of Energy Regulators) highlighting that peripheral energy markets such as Ireland, which have a higher dependency on gas in their power generation mix, as well as relatively lower levels of

interconnection, were particularly hard hit by these higher gas prices.

The CRU continues to monitor the market and is also reviewing the effectiveness of the enhanced consumer protection measures we have put in place over the recent winter months. The CRU will continue to encourage suppliers to pass through price reductions as soon as possible whilst at the same time preparing for the winter ahead so Irish customers are protected.

The CRU is also engaging in a review of the Supplier of Last Resort Process, following the first, second and third ever SOLR events arising between June and October 2022. This illustrates the impact of the volatility in the global wholesale gas markets which made it commercially unviable for some suppliers to remain in the Irish retail market.

The review will include scenario planning should more suppliers exit the market. The CRU is seeking learnings

from these market exits regarding the transition of consumers to the suppliers of last resort and also the costs associated with these events. The CRU will conduct its annual review of the retail market to evaluate the trends and behaviours in the marketplace to assist in any potential regulatory response.

Following a request at our last appearance before the Committee we have also separately provided an information memo on hedging in the Single Electricity Market. We would like to invite the Committee to review this document and would welcome the opportunity to meet with any Committee members who may wish to discuss it in more detail.

LEU Rebalancing

The Committee has also asked for an update on the LEU rebalancing process. As noted at our last appearance before the Committee, the CRU has been

engaging with ESB Networks following the identification of an administrative error in their implementation of this government policy over the duration of its delivery.

The CRU is currently engaging in a review of ESNB's initial submission on the quantitative assessment of the error, in order to fully identify the impact on consumer bills across all of the distribution tariff groups affected by the error.

As part of the revenue and tariff determination process for 2023/24, the CRU is also exploring the reconciliation options available. The CRU intends that the full error amount is returned to domestic (and any other affected customers) within the 2023/24 tariff year. However, it is important to identify the bill impacts for the range of consumers involved, where there is an applicable revenue recovery. The CRU has just received the ESNB 2023/24 revenue submission

and is working through this in order to determine the allowed revenue for 2023/24.

We are also engaging with ESNB to identify mitigation options in order to prevent any potential inaccuracies or errors in the future.

A standalone Information Paper, setting out quantitative assessment, reconciliation approach, indicative consumer impact and mitigation measures will be drafted for publication in August of 2023 in parallel with the revenue and tariff decision for 2023/24.

As noted, the CRU will be seeking to re-distribute the excess tariff quantum to consumers through the tariff mechanism, in as short a time as possible. This is part of an annual tariff setting process, which is not subject to public consultation. The Commission welcomes any feedback the Committee may have on this or any matter, in today's discussion.

Active Consumers

CRU notes to the Committee the progress with regard to smart metering and active consumers. In excess of 1.2m smart meters have now been installed in Ireland, with the ESB customer portal now providing access for consumers to their data in approximately 85% of cases, with this percentage increasing over time. We currently have over 160,000 consumers availing of smart data services, and close to 80,000 consumers on smart tariffs.

We would note that for the majority of suppliers, the Estimated Annual Bills for Smart Services Tariffs are now better value for consumers than the traditional 24hr tariffs and that there are continued positive trends on the competitiveness of these tariffs.

Smart Meters, and more active consumers, will remain a critical part in a secure, low carbon transition, where consumers benefit from our deployment of renewables

and a more flexible power system. Critical to this transition is the ability of a range of stakeholders to have access to, at an appropriate level, the data collected by smart meters. Further strengthening of legislation in this regard could help to provide greater value for consumers in our low carbon transition.

Decarbonisation

The CRU has recently announced a further round of connections in 2023 for renewable and other generators in order to continue the roll-out of renewable energy in Ireland, including a dedicated pathway for community projects. CRU will also be engaging in a consultation in the coming months relating to the future of generator connections policy, with a view to aligning with upcoming EU requirements in relation to swifter delivery of the consenting, licensing and deployment of renewable energy.

The CRU has also recently published our Decision on the regulatory treatment of offshore connection assets, in advance of the recent ORESS Auction, providing clarity to offshore wind developers on the funding and ownership arrangements for connection assets. The CRU also finalised the Competition Ratio for the ORESS Auction aligning the need for competitive forces within the auction, to protect consumers, while facilitating significant levels of deployment in advance of 2030.

The CRU welcomes the recent publication of the government review relating to the North South Interconnector, which now allows this project to proceed, and Irish consumers to enjoy the security of supply, decarbonisation, and cost reduction benefits of this critical piece of infrastructure.

The CRU also notes the significant progress being made on the Greenlink Interconnector to the GB market, and the progress being made on the Celtic Interconnector

to France. The CRU also notes the evolving policy framework on Interconnection, led by DECC, which will set the scene for future electrical interconnection and will allow Irish renewable energy to find a market as we move from a position of primarily serving our own demand, to a position where we begin to export ever more renewable electricity.

Demand Side Flexibility and Strategy

Demand flexibility will play a central role in Ireland's decarbonisation, while supporting both security of supply and providing greater value to consumers.

While the policy framework for smaller scale consumers is relatively well formed, on the basis of smart meters, smart tariffs and the provision of value to consumers relating to their demand flexibility, the framework for larger scale consumers is far less well formed.

With a target of 30% electricity demand flexibility by 2030 enshrined within Climate Action Plan '23 (which notes a need for large energy users to contribute more to this target), and a specific action in CAP23 on the CRU to develop a Demand Side Strategy, this will be a key activity for CRU in the coming period. With a focus on the decarbonisation of our economic growth, aligning our national ambitions for both a growing and decarbonising economy, this will involve significant public consultation and an initial focus on those aspects of demand that are within the remit of the CRU, such as connections policy and pricing signals through network tariffs. However, we would note that to deliver the level of demand flexibility required to match our decarbonisation ambition, a whole of government and multi-agency approach will be needed in order to ensure that those businesses providing growth in our economy are appropriately incentivised to be more flexible in their demand.

Market Revenue Cap Legislation

CRU welcomes the Committee scrutiny of the legislation relating to the European Commission emergency measure regarding a market cap on revenues in the electricity sector. The CRU awaits the outcome of the final detailed legislative proposal but is securing the necessary support in order to be able to follow through on the requirements and ensure that, in line with the requirements and detail of government policy, the surplus revenues identified by the policy will be collected in a timely fashion.

Organisational

CRU continues to recruit resources in line with our sanction for a total of 196 staff - an increase of 60% from the end of 2021. We would note that since we submitted our resource request, Ireland's low carbon ambitions have increased, energy security and pricing

crises have imposed new challenges to the organisation, and the potential for additional functions to be added to the organisation continues. With this in mind we are engaging in a short organisational review to understand what additional capacity and expertise we may need, additional to the already sanctioned positions.

We would note that Ireland currently has a very tight labour market, with a particular shortage being experienced in the energy sector.

The CRU will continue to develop our organisation to protect the consumer interest in energy, water and energy safety over the coming years, and welcomes the support of the Committee in this regard.

This concludes our opening statement. We are happy to take your questions. Thank you.