Scheme, which will extend broadband to htose parts of the country which are not currently served.

Higher speeds – by 2012 Ireland's broadband speeds will equal or exceed those in comparator EU regions.

Broadband to schools – In the context of the Government's investment in broadband infrastructure, connectivity to schools, in particular, will benefit.

International connectivity – The Government will ensure Ireland's continued high level of international connectivity.

Optimal use of State Assets – major public infrastructure projects will, in future, install ducting at the construction stage to facilitate network roll-out and Government will establish a one-stop-shop to provide service providers with flexible and open access to existing and future ducting infrastructure.

Fibre connections in new premises – new premises in Ireland will be required to install open-access fibre connections, where practicable.

Strong regulation and innovative licensing – ComReg will maintain the regulatory framework necessary for telecoms operators to compete in a fair and transparent manner across a range of platforms.

Demand stimulation – the Government will help stimulate demand for broadband by extending the range of eGovernment services and applications and by increasing the use of high band width for internal public sector business.

Broadband Advisory Groups
Any further decisions on State investment in broadband, shall be guided by the final policy papers. The policy actions which are also listed in the Government's 2008 paper "Building Ireland's Smart Economy, A Framework for Sustainable Economic Renewal"are; the National Broadband Scheme, Broadband to Schools, The One-Stop-Shop, Fibre connections in New Premises and International Connectivity.

Subsequent to the report, the Department engaged in an intensive public consultation period and invited written submissions from interested parties. It is intended to publish a final report, having regard to the consultation period in Q2 2009.

Roaming
Agreement to extend the existing Regulation on mobile phone roaming charges is close to agreement at EU level. The new Regulation will continue to cap prices of EU roaming calls at the wholesale and retail level and will be extended to **include** wholesale and retail price caps for text messages and wholesale caps for data roaming (e.g. Downloading internet data while roaming). The Parliament agreed to extend the regulation on the 22 April 2009 and EU telecoms Ministers are due to approve it in June 2009. Ireland strongly supported the bringing forward the original regulation and the extension of the roaming Regulation.

Key Immediate Issues

Final Policy Paper on Next Generation Broadband
In conjunction with ComReg to address the issues associated with promoting investment in Next Generation Broadband networks

Medium to Longer Term Issues

DCENR Working Group on Spectrum Policy
Radio Spectrum is a key enabler to support the achievement of broad economic, social, cultural and emergency service objectives. Its use cuts across a number of sectors including, communications, broadcasting, public safety, R&D etc.

Spectrum Policy is primarily set out in the Wireless Telegraphy Act 1926 with changes in policy reflected in amendments to legislative provisions enacted since then. Our legislative framework also incorporates EU requirements on spectrum. Finally, we are also obliged to abide by other international obligations in this area: this involves ensuring that spectrum policy is aligned with international obligations in regard to frequency allocation and that spectrum policy is compatible with EU obligations.

The environment in regard to radio spectrum has changed significantly since the 1926 legislation was enacted and for this reason it is now timely to review spectrum policy. In 2007, a Working Group on Spectrum Policy was established in 2007. The purpose of the Working Group was to set out broad principles on spectrum policy which could provide the core of proposed new Radio Communications legislation. The Working Group submitted its report to the Minister in September 2008 and this was put out for public consultation. Following an examination of submissions received it is intended to publish a policy paper on spectrum and to undertake the necessary changes in legislation.

Convergence
General convergence is taking place in the telecommunications/ broadcasting sector. Companies are developing new business models where voice, data and video services are converged e.g. a cable company will be capable of providing telephone, internet and broadcasting services over the same platform/network. Designing an effective regulatory framework in such a dynamic sector is challenging.

Agencies

Commission for Communications Regulation (ComReg)
Commissioners (up to 3 with a rotating chair)
John Doherty, Chairperson
Mike Byrne,
Alex Chisholm

Key Industry/Stakeholder Groups

IBEC/TIF (Telecommunications Industry Federation)
ALTO (Association of Licensed Telecoms Operators)
Authorised Electronic Communications Companies

Postal Sector

Functions of Division

Development of an effective policy for the Irish postal sector based on open market principles and in conjunction with EU initiatives

Corporate Governance in relation to An Post and the Commission for Communications Regulation (ComReg)

Sectoral Profile

The postal sector in Ireland covers a wide range of services in the communications, distribution, logistics and financial areas. It includes the provision of national and international postal and parcel delivery services. The Commission for Communications Regulation, ComReg, regulates the sector. To date Ireland has adopted a light regulatory approach to liberalisation so as to encourage and maximise the number of postal operators that enter the market. In addition to An Post, which was established under the Postal and Telecommunications Services Act 1983, there are currently 35 companies with an authorisation from ComReg, operating in the postal sector. Among these are operators such as DHL and Pony Express. Through ownership of logistics firms here European operators such as TNT and Deutsche Post also have a foothold in the Irish market. 80% of all mail is now business generated and An Post and other operators are facing competition from electronic substitution.

An Post provides letter and parcel services and operates a network of post offices. It is the dominant operator in the market, with 9,450 employees. Ireland has one of largest post office networks in Europe per head of population. The key challenges facing the company are maintaining profitability at a time that mail volumes are falling, preparing for the full liberalisation of market in 2011 and countering the effects of electronic substitution. To this end, the company must maintain focus on achieving cost savings under its change programmes.

Key Immediate Issues

Liberalisation

Directive 2008/6/EC, published on 20th February 2008, has set the date and terms of the full liberalisation of the postal market. The opening of the market has been occurring on a phased basis since 2000, which means that 62% of An Post's mail business is currently open to competition. The date set for full market opening in Ireland is 1st January 2011 and the Directive must be transposed into law by this date. The Department is currently designing the regulatory framework for a fully liberalised postal market that will ensure that the universal service obligation is met and that competition is facilitated.

In 2008 the Department held a public consultation on how interested parties considered how the Directive should be implemented in key area such as pricing, delivery of universal service, access to the An Post network and quality of service Following on from this a policy paper on is now being drafted.

Quality of Service

Central to An Post being prepared for competition is that it offers high quality services. ComReg is responsible for monitoring quality of service and may issue directions to An Post in this regard. Next day delivery levels rates for 2008 were measured at 79% (a 2% improvement) but still remain well short of ComReg's target of 94%. [redacted].

Regulations (provided for in the Communications Regulation (Amendment) Act 2007) were enacted in 2008 which gave powers to ComReg to apply to the High Court for the application of a financial penalty to An Post, as universal service provider, in the event that the company fails to comply with a direction issued by the regulator, including those relating to quality of service standards..

Post Office Network
The post office network is made up of 1427 post offices The matter of post office closures is a matter for the company. The majority of post offices are operated by contractors rather than by An Post directly and these contractors are represented by the Irish Postmasters Union (IPU). A significant number of post offices, are not commercially viable, a problem acknowledged by the IPU. The network therefore is not sustainable at its current size. An agreement on remuneration, severance and other issues was reached between An Post management and the IPU in 2007.

Joint Financial Services Venture
A joint financial services venture between An Post and Belgian bank, Fortis, launched in May continues to expand. It added to its existing savings and investments products with the launching in 2008 of current account facilities and credit card and insurance services. By the end of the year, Postbank had a presence in 1,000 post offices.

Postbank was accepted into the Government guarantee scheme, as provided for in the Credit Institutions (Financial Support) Act 2008. In a separate development, Fortis, a joint shareholder of Postbank, has now been part-nationalised by the Dutch Government and its operations in Luxembourg and Belgium have been taken over by BNP Paribas.

[redacted]

DSFA Contract
In a case brought before the European Court of Justice as to whether the contract between An Post and the Department of Social and Family Affairs (DSFA) to pay benefit payments should have been publicly advertised, the Court ruled in 2008 that this contract did not have to be advertised. Should the DSFA advertise the contract in the future, An Post has indicated that it will be in a good position to tender. However, should it fail to secure the contract, there would be serious financial implications for the company with potential losses in direct revenue and indirect revenue of a third and one half respectively.

Postcodes
A memo was submitted to Government in May seeking approval for the implementation of a postcode system. The decision arising was that the Minister would revert to Government following further analysis to quantify the benefits, which would then be followed by a public consultation process. This analysis has been completed and a Ministerial decision is awaited

Agencies
An Post
John Fitzgerald, Chairperson
Donal Connell, Chief Executive

Communications (Business and Technology) Division

Head of Division: Roger O'Connor, Director

Functions of Division

- To create policy and legislation governing new technologies and new uses for existing technologies
- To create policy and legislation governing the use of the radio spectrum
- To create policy and legislation governing the use of internet nationally and internationally
- To create in-house expertise on all aspects of communications technology and business issues.

Major Current Issues

Emergency Call Answering Service
Eircom and its predecessors have provided the emergency call answering service (999 or 112) since the foundation of the state. They approached the Department and indicated that they no longer were interested in providing the service. The Department failed to persuade any of the emergency services to take over the provision of the service. A contract was signed in February 2009 with BT for provision of the service following the enactment of enabling provisions in the Telecommunications Regulation Act 2007.

[redacted]

Make IT Secure campaign
The Department has organised four campaigns to promote the sage use of the internet. The latest in Spring 2008. The Department secured public funding for the campaign of the order of €1m with matched private sector funding of around €200k. The campaign has been supported by some of the leading players in both IT and telecommunications. The campaign has a high media exposure component.

Knowledge Society Strategy

- The Division is working with the Research Coordinator, Barry McSweeney, to develop a strategy for the Knowledge Society. In particular to provide technical advice on the technologies involved in the strategy and to work on the "Workflow" flagship project.
- Emerging technologies required to enable the economic recovery plan and to support the smart economy are being investigated. A report is being prepared for June.

- Workshops on key issues are being held, the next is on Data Centres and Cloud Computing on 1st May.

Wireless Telegraphy Act

The current Wireless Telegraphy Legislation is based on the 1926 Act. The Division is reviewing the Act and will be proposing a new radiocommunications bill. This will allow for either spectrum licensing or apparatus licensing and will change to a more market focus with less command and control, however an appropriate balance must be struck.

Digital Dividend Policy

A policy document on the use of the digital dividend was published in March 2009..

Spectrum Policy

A working group of experts, departmental, regulatory and academic was eastablished in 2007 to review and update radio spectrum policy so that it reflects changing technological developments and maximises the value and contribution of spectrum to the development and delivery of economic, social, cultural and emergency services. A consultation document was published in Autumn 2008. Responses to this consultation were provided up to November 2008. During 2009 these will be considered and a final spectrum policy prepared.

Network Security

The Department is participate at European level in the work of the European Network Security Agency (ENISA). As part of a harmonised EU approach Ireland conducts campaigns to raise the awareness of Network Security issues at Consumer level.

Trials of Broadband telecommunications access and applications

The Division promotes the trialling of various technologies for broadband access. Previous trials include Wireless Local Area Networks (WLANs) for broadband access in the local loop, the use of satellite-based broadband access to internet, for remote

Next Generation Networks

A policy on Next Generation Networks (NGN's) is being prepared by the Department. The Division is drafting technical specifiations for the delivery of open access fibre to the home for all new build.

Science & Technology Policy

The Business & Technology Division develops Science & Technology Policy. We participate in the Royal Irish Academy committee on Communications and Radio Science.

Shorter Term Major Issues (1-2 years)

Developing a Knowledge Society Strategy. Developing supporting technologies to implement the economic recovery plan and enable a smart economy. Internet Governance: the development of new models to facilitate the growth of internet in a global environment while addressing the need for clarity in relation to rights, powers, administration, representation, legislation, trade, regulation, competition, geographical diversity, language diversity etc; while also addressing the needs of developing countries.

Voice over IP as a watershed in the provision of communications services in the Irish market; the impact on incumbents; increased competition; regulatory issues.

Medium to Longer Term Major Issues (2 to 4 years)

Science and Technology policy as it impacts on the rollout and use of communications infrastructure: the quality and capacity of future skills in Science, IT and Engineering; the ability to develop and retain world leading research capacity and spin-off industries in emerging technologies; the competitiveness of the Irish economy in the knowledge society: IP issues; moving the sector up the value chain

Energy

Introduction

1. Ireland is a small energy market in European and global terms and relatively separate from other systems. Inherent structural characteristics of the energy market means that Ireland faces additional energy costs compared to other EU countries (lack of indigenous fuel sources, high import dependency of fossil fuels, lack of interconnection with other markets and small market size). Significant investment in electricity networks, and in energy infrastructure generally, has been occurring in parallel with, and driven by, recent high levels of economic growth. While recent economic events are likely to be reflected in lower electricity demand for a time, there is a continuing requirement for significant energy infrastructure investment.

2. Energy policy in Ireland has three main goals or pillars – maintaining secure energy supplies, supporting economic growth and competitiveness and ensuring that energy supply and use is environmentally sustainable. Increased energy efficiency and increased use of renewable energy have the double benefit of meeting the challenge of climate change and enhancing security of supply through reduced fossil fuel usage.

3. In terms of influences on the content of Irish energy policy, much of the agenda, especially on market reform and liberalisation, deregulation and sustainability (both energy efficiency and the use of renewables) is driven by our membership of the EU. Ireland is also a member of the International Energy Agency (IEA), an autonomous body set up in 1974 within the framework of the OECD with a remit to implement an international energy programme, with a core focus on security of supply, in particular oil. The IEA published an in-depth review of Ireland's energy policy in July 2007.

The White Paper

4. The Energy White Paper published in March 2007 sets out a comprehensive range of strategic policy goals, actions and targets for the energy sector out to 2020. These policy goals, actions and targets are grouped under the three pillars of security, sustainability and competitiveness. The policy actions in the White paper were confirmed in the Programme for Government. Particular aspects were identified as key enablers of future employment in the Framework for Sustainable Economic Renewal, "Building Ireland's Smart Economy ". As well as addressing the longer term broad spectrum of issues in the energy sector, the White Paper includes immediate term actions designed specifically to improve security and continuity of supply, to improve the structure of the electricity sector to encourage new market entry and to address the issue of costs through changes to network charges.

5. On the security of energy supply, the White Paper sets out actions for gas, electricity, fuel diversity, hydrocarbon exploration and production and emergency/crisis planning. Particular priority is given to ensuring that electricity supply continues to meet growing demand. There are actions under the sustainability pillar designed to increase the contribution of renewables to energy

supply and consumption. These targets also assist with fuel diversity and therefore enhance security. In the area of fossil fuels, diversifying gas supply into LNG and using clean coal technology are also essential components of a diverse overall fuel supply for the long term.

6. On the sustainability question, the White Paper contains actions and targets designed to increase the contribution of renewables to energy consumption, with specific targets for heat, built environment and transport and for increasing the contribution of ocean, Combined Heat and Power and biofuels. Addressing energy efficiency is also an important part of the sustainability pillar by increasing energy consumer consciousness with a view towards behavioural change.

7. The White Paper contains actions and targets on the competitiveness front, mainly the reform of the electricity market in a number of ways, to encourage involvement by more players. Among the key elements was the development of the Single Electricity market, now in place, and the transfer of the ownership of the transmission assets from the ESB Group to EirGrid.

All-Island Energy Developments

8. Political commitment to the development of the energy market on an all-island basis remains firm with the shared objective of delivering mutual benefits for the economies and consumers North and South.

9. The Single Electricity Market (SEM) has been in operation since November 2007 and is working well.

10. Major investment currently underway in electricity networks upgrading will ensure that electricity infrastructure provides a sound basis for economic and industrial development. A second North-South link (Cavan-Tyrone) will more than double the existing cross-border electricity transfer capacity to over 600MW. The target completion date is 2012, subject to relevant planning consents in both jurisdictions.

Department's Corporate Governance role

11. Within the Energy area the Department is responsible for a number of the State's largest and most important commercial State companies, non-commercial bodies and the Commission for Energy Regulation.

12. The Department is committed to building and maintaining strong and effective Corporate Governance structures in the bodies for which we have responsibility. The enhancement of these standards and procedures will greatly benefit the transparency and accountability aspects of our relationships with these organisations.

13. Increasingly our State companies are operating in highly competitive environments where high levels of business/commercial expertise and strategic vision are required at both management and board level.

The main areas of responsibility of each of the Energy Divisions together with key immediate issues and medium to longer term issues are set out in the following pages.

Key Immediate/Priority Issues

Security of Electricity Supply
Security of supply in relation to electricity in Ireland is the statutory responsibility of the independent Regulator, the Commission for Energy Regulation (CER). The independent Transmission System Operator (TSO), EirGrid, monitors the adequacy of generation capacity over time and reports to the CER accordingly.

The generation adequacy outlook for 2009-11 is positive in light of the scheduled connection of over 860 megawatts of new generation plant in that period;
It is critically important to ensure completion by end 2012 of:

- the 2nd North/South transmission line (to allow for electricity systems North and South to operate on an All Island basis thereby realising the security of supply benefits of the Single Electricity Market); and
- the East/West Interconnector linking the Irish electricity system with that of the UK, thereby contributing to the diversity and security of our electricity supply.

Installed wind capacity currently stands at just over 1000 megawatts. This should rise to at least 1350 megawatts by 2010 allowing for at least 15% of our demand for electricity to be met by wind generation.

Single Electricity Market (SEM)
The all-island single wholesale electricity market will be established by 1 November 2007 and the necessary legislation was enacted by the Oireachtas and Westminster in March. The two regulatory authorities, the CER and NIAER, are now finalising the remaining elements to ensure a fully operational market. A 'go-active' phase will begin on 3 July and this will include market trials to allow all market participants to ensure that their systems are ready for the 'go-live' date of 1 November 2007.

Transfer of Ownership of Transmission Assets from ESB to EirGrid
A key feature of the White Paper was the decision to transfer the ownership of the electricity transmission system from ESB to EirGrid by end 2008. [redacted]

Priority Legislation for Eirgrid

CER-ESB Asset Strategy
On 29 November 2006, the CER and ESB agreed a strategy to reduce ESB's dominant position in the power generation market to below 40% by 2010. The agreement provides for the sale/divestment of approximately 1500MW of ESB generation capacity and, in particular, the making available of ESB 'brown-field' sites for the development of new generation by independent players. A number of key aspects of the agreement need to be delivered by 30 June 2007, including the sale of 108MW of 'peaking' capacity and the putting on the market of the Shannonbridge and Lanesboro sites.

Budgetary Shortfall for Renewable Schemes

Captial funding for SEI programmes is under pressure in 2007. SEI was allocated €37.457m in 2007, of which €3.565m is for pay, €2.892m is for non-pay, €11m is for NDP programmes and €20m is for the three grants programmes - Greener Homes, ReHeat and CHP.

Owing to the success of the grants programmes, and in particular, Greener Homes, it likely that there will be a funding shortfall in 2007, with SEI already €8m over-profile. The funding needs will need to be addressed through a Supplementary Estimate.

All-Island Gas Storage and LNG Study

Results of the Study have been presented to the All-Island Joint Steering Group. Critical aspects of the study centre on security of supply and our heavy reliance on gas imports via undersea pipeline form the UK. Policy recommendations (incl. North / South implications) are currently being developed by the Joint Steering Group's Working Group on Security of Electricity and Gas Supply and will feed in to work to establish policy options on the security of our gas supply.

Infringement Proceedings

In December 2006, the Department received Reasoned Opinions from the EU Commission with respect to alleged failure by Ireland to comply with certain provisions of the Electricity and Gas Directives. Similar letters were issued by the Commission to 16 other Member States. Ireland was invited to take the necessary measures to comply with the Reasoned Opinions by 15 February 2007. Responses setting out Ireland's views and intentions in relation to the issues raised in the Reasoned Opinions were submitted to the Commission on the 15 February in compliance with deadline requirements. A decision is awaited from the Commission.. If the Commission rules that Ireland is not in compliance it may bring the Case before the European Court of Justice (ECJ). If the ECJ finds against Ireland it may impose a lump sum or penalty payment on the State. The Department is fully engaged with the Attorney General's Office and the CER on the issues.

Implementation of the Energy Services Directive has also been subject to infringement proceedings. Although many of the actions are well advanced, a recent application for an extension was rejected by the Commission. EE&A Division are working to transpose the Directive as soon as possible.

Full Commencement of NORA legislation/ Increase in NORA Levy

The National Oil Reserves Agency Act was signed in March. Parts 1 and 2 of the Act have since been commenced by way of Ministerial Orders (April 2007). Three further Ministerial Orders need to be executed to give full effect to the legislation, including a proposed increase in the levy which funds NORA's oil stockholding operations. The Minister will be presented with a detailed submission on these issues shortly

Energy Efficiency Action Plan

The Government committed in its White Paper on Energy to the publication of a National Energy Efficiency Action Plan (NEEAP), which also fulfils Ireland's obligations under the aforementioned Energy Services Directive. The NEEAP is scheduled to be considered by the Cabinet at their meeting of 5 May, ahead of a launch on 8 May. The NEEAP sets out how the Government proposes to achieve the 9% energy efficiency saving by 2016 required by the Directive, and to achieve the more ambitious 20% National indicative target saving by 2020.

Affordable Energy
The energy policy framework undertook to convene an inter-departmental/agency group to coordinate cross-governmental efforts to mitigate energy poverty. The department convened such a group in July 2008 and has met regularly ever since. The primary mechanism for the delivery of measures in this areas is via the Warmer Homes Scheme (SEI managed). A strategic review of the scheme is expected in May.

Energy Efficiency Schemes
Four schemes dominate activity on energy efficiency in 2009. These are the Home Energy Saving scheme (HES), the Warmer Homes scheme (WHS), the Industries programme and the Public Sector Energy Efficiency Target programme. Funding for the HES dominates spending plans within the energy area with a budget of €49 million this year. The WHS has a budget of €20 million while the industries and public sector programmes have budgets of X and Y respectfully.

Biofuels
The White Paper established a target of 5.75% market penetration of biofuels by 2010 to be achieved through a biofuels obligation introduced in 2009. A target of 10% has been set for 2020. A formal consultation on the obligation will be issued in 2007.

Launch of IEA In-Depth Review of Ireland's Energy Policy (July 2007)
The IEA Executive Director will visit Dublin to present the Minister with its report on the outcome of its review of Ireland's energy policy. Associated press coverage and general high profile of this event is planned.

Energy research policy, programmes and strategy
Key immediate tasks in energy research policy include finalisation of the award of grants under Charles Parsons II (the scheme of grants for the development of energy research capability and infrastructure) by September 2007. The Irish Energy Research Council is beginning work on the multi annual Energy Research Strategy for completion by end year.

Security of Electricity Supply
Security of supply in relation to electricity in Ireland is the statutory responsibility of the independent Regulator, the Commission for Energy Regulation (CER). The independent Transmission System Operator (TSO), EirGrid, monitors the adequacy of generation capacity over time and reports to the CER accordingly.

The generation adequacy outlook for 2009-11 is positive in light of the scheduled connection of over 860 megawatts of new generation plant in that period;
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Installed wind capacity currently stands at just over 1000 megawatts. This should rise to at least 1350 megawatts by 2010 allowing for at least 15% of our demand for electricity to be met by wind generation.

[redacted]

Priority Legislation for Eirgrid
Eirgrid plc was established as the successor to ESB National Grid to take on the role and responsibilities of Transmission System Operator (TSO) in Ireland, as well as Market operator of the wholesale electricity trading system. The profile of Eirgrid is undergoing significant structural change from a company with no assets or borrowings to a company owning strategic energy infrastructure and holding significant debt. [redacted]

Budgetary Shortfall for Renewable Schemes
Captial funding for SEI programmes is under pressure in 2007. SEI was allocated €37.457m in 2007, of which €3.565m is for pay, €2.892m is for non-pay, €11m is for NDP programmes and €20m is for the three grants programmes - Greener Homes, ReHeat and CHP.

Owing to the success of the grants programmes, and in particular, Greener Homes, it likely that there will be a funding shortfall in 2007, with SEI already €8m over-profile. The funding needs will need to be addressed through a Supplementary Estimate.

All-Island Gas Storage and LNG Study (REBECCA)
Jointly commissioned and funded North/South study is scheduled for completion by late August / early September. Results of the Study will then be presented to the All-Island Joint Steering Group, and policy recommendations (incl. North / South implications) to be developed on the basis of the study's results for subsequent presentation to Governments. Critical aspects of the study centre on security of supply and our heavy reliance on gas imports via undersea pipeline form the UK.

Infringement Proceedings
In December 2006, the Department received Reasoned Opinions from the EU Commission with respect to alleged failure by Ireland to comply with certain provisions of the Electricity and Gas Directives. Similar letters were issued by the Commission to 16 other Member States. Ireland was invited to take the necessary measures to comply with the Reasoned Opinions by 15 February 2007. Responses setting out Ireland's views and intentions in relation to the issues raised in the Reasoned Opinions were submitted to the Commission on the 15 February in compliance with deadline requirements. A decision is expected from the Commission before the end of June. If the Commission rules that Ireland is not in compliance it may bring the Case before the European Court of Justice (ECJ). If the ECJ finds against Ireland it may impose a lump sum or penalty payment on the State. The Department is fully engaged with the Attorney General's Office and the CER on the issues.

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Energy Efficiency Action Plan
The Government committed in its White Paper on Energy to the publication of a National Energy Efficiency Action Plan by June 2007. There is also a National report due under the EU Energy Services Directive. This action plan will set out how the Government proposes to achieve the 9% energy efficiency saving by 2016 required by the Directive and to achieve the more ambitious 20% National indicative target saving by 2020. The Action Plan is currently being finalised.

Biofuels
The White Paper established a target of 5.75% market penetration of biofuels by 2010 to be achieved through a biofuels obligation introduced in 2009. A target of 10% has been set for 2020. A formal consultation on the obligation will be issued in 2007.

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Electricity Corporate Division

Head of Division: Éanna Ó Conghaile, Principal Officer

Functions of Division

Electricity (Corporate) Division's primary function is to ensure representation of the State as shareholder in ESB including, in particular, the effective discharge of the corporate governance role and the facilitation of the Company's future growth and development in a liberalised electricity market.

Sectoral Profile

ESB faces significant challenges over the coming years with the CER exercising tight control over allowed revenues and operating costs in its regulated business arms; the proposed transfer of ownership of the transmission assets to EirGrid; increased competition in the supply market; and the existence of a significant deficit in its Pension Fund

The Commission for Energy Regulation (CER) Asset Strategy for the ESB agreed measures to reduce the company's share of the all island generation market to below 40% in capacity terms and this has been largely achieved with the sale of Tarbert and Great Island power stations, sites at Shannonbridge and Lanesboro and 208 MW of peaking capacity located at Rhode and Tawnaghmore by ESB to Endesa Limited. This sale process was completed in early January 2009.

The recent entry of both BGE and Airtricity to the domestic electricity supply market is impacting on the ESB position where previously the company had 100% market share of domestic market. ESB lost 100,000 domestic customers up to the end of March 2009.

Key Immediate Issues

Pensions Deficit

[redacted] The actuarial review due at the end of 2009 was brought forward and ESB have just received the results. The key findings of the review is a shortfall of assets to liabilities of €1,957 million. The ESB will be working with ESB Fund Trustees and the Group of Unions to address the consequences and to find the most appropriate manner to address this deficit.

Transfer of ownership of transmission assets from ESB to EirGrid

The Programme for Government confirms the decision to transfer the ownership of the electricity transmission system from ESB to EirGrid by end 2008. While this timetable has not been met, the Government remains committed to delivery and the

Minister's statement in March 2008 sets out the process by which this will be achieved.

EirGrid, which was formally established as an independent entity on 1 July 2006, already has responsibility for operation of Ireland's electricity transmission system. The continued ownership of the transmission assets by ESB is a barrier to market entry by independent players, particularly when seen in the light of ESB's continued dominance of the power generation and electricity supply markets. There is strong support across enterprise and in the energy sector itself (as well as CER, the competition Authority and the National Consumer Agency) for giving EirGrid ownership of the transmission assets to underpin the independence and transparency of transmission. It is a key element in the structural reform of the electricity sector.

[redacted]

The transfer of the assets between the two State companies will involve a complex range of legal and financial issues and independent specialist consultancy advice will be required to complete the transaction.

Medium to Longer Term Major Issues

- On the basis of the CER-ESB Asset Strategy, ESB obtained Government authorisation to construct a new 400MW generating unit at Aghada, Co Cork. The Aghada unit is due to come on line in 2010.

- ESB Strategic Framework to 2020, announced in 2008, details ESB's planned investment at home and abroad, prioritising the sustainability agenda particularly in the areas of emissions reductions, renewables, energy efficiency and smart metering. The Framework will see a total capital investment of €22 billion by the company, with fifty percent of the overall investment package geared towards investments in renewables. The company intends to halve its carbon emissions within 12 years and achieve carbon net-zero by 2035.

- ESB's electricity grid upgrading programme to facilitate the growing demand for electricity and the security of electricity supplies in the future is well underway. ESB Networks have completed the €3.2 billion Network Renewal Programme which refurbished and effectively upgraded the entire rural medium voltage networks (75,000 km). Over the 2006 – 2010 period, a large element of ESB's investment programme will focus on upgrading the urban and rural low voltage networks. Capital expenditure in the Distribution and Transmission businesses over the period 2006-2010 is expected to be in the region of €3bn, compared to an investment of €3.3bn between 2000-2005.

Agency under the aegis of the Division

ESB
The Board of ESB comprises 12 members, including the Chairman and the CEO. There are 4 Worker Director members on the Board and the CEO is an ex-officio member.

Key Industry/Stakeholder Groups
ESB
ESB Group of Unions
Department of Finance

North-South Energy Division
Head of Division: Éanna Ó Conghaile, Principal Officer

Functions of Division

North-South Energy Division's primary function is to promote and facilitate the development of an all-island energy market. The challenge is to capture the opportunities, opened up by the peace process and the new political landscape in Northern Ireland, for enhanced North – South energy cooperation to mutual benefit. More recently, and in line with EU policy in relation to the progressive regionalisation of energy markets, the Division's area of activity has extended to include issues relating to cooperation and contact between the administrations on the island of Ireland and those in Great Britain.

Current Issues

Second North – South Electricity Interconnector
EirGrid and NIE are investing approximately €180 m in this project. They are presently involved in the planning stage for the construction of the interconnector which will underpin the Single Electricity Market. The link will double the existing cross-border electricity transfer capacity to over 600MW and will be operational by 2012.

CAG
As part of the All-island Energy Market Development Framework, it was agreed to consider development of common (all-island) arrangements for natural gas. It is recognised that these have the potential to provide customer savings and encourage new suppliers into the market.

Preliminary work has been carried out by the two regulatory authorities (the Northern Ireland Authority for Utility Regulation and the Commission for Energy Regulation) and a full cost benefit analysis on the proposals has been completed.

INTERREG Projects

In late 2008, two INTERREG projects jointly proposed by the three administrations in Ireland, Northern Ireland and Scotland were approved for funding.

The first comprises a proposed detailed feasibility study for a sub-sea electricity link-up of the electricity grids on the island of Ireland and Scotland (the ISLES Project). This would be expected to increase the potential for high penetration of electricity from renewable energy sources in the three jurisdictions. It follows on from a pre-feasibility study that was carried out in 2007. The second project comprisesd a proposal developed by several third-level institutions in the three jurisdictions to examine the potential for marine algae forms of biomass. This is an area of huge potential and an ideal subject for the research centres concerned.

Medium to Longer-Term Major Issues

British Irish Council

It has recently been agreed to include a new Energy workstream as part of the work of the British Irish Council. The workstream will focus primarily on Marine Renewables and Grid Infrastructure issues. The proposal reflects the increasing interaction between the relevant administrations in the area of energy. It envisages the BIC providing a high-level forum for sharing updates on progress and identifying and progressing opportunities for closer collaboration in these two areas.

Review of the All-island Energy Market Development Framework.

A joint review of the Framework document which was jointly published in November 2004, is underway and it is expected that it will be published in late 2009/2010 (following publication by DETI of the NI Strategic Energy Framework which is currently underway).

Electricity and Gas Regulation Division

Head of Division: Michael Daly, Principal Officer

Functions of Division

The Electricity and Gas Regulation Division is responsible for the formulation and implementation of policy on the liberalisation and regulation of the electricity and gas markets in the State. It also has responsibility for the formulation of regulatory policy on safety and security of supply for gas and electricity for the State, and for the corporate governance of the Commission for Energy Regulation (CER).

The responsibilities of Electricity / Gas Regulation Division include:

- Devising and implementing regulatory, safety, markets and security of supply policy relating to electricity and gas sectors;
- Ensuring Security of Energy Supply and adequate Emergency Planning;
- Assessing / planning of energy infrastructure enhancements in contexts of security of supply, economic and regional development including the National Spatial Strategy and the National Development Plan 2007 - 2013;
- Implementing the legislative and regulatory frameworks for the electricity and gas industries having regard to EU and National requirements and the development of an All-island energy market and new trading arrangements;
- Ensuring focus on high standard of safety in the context of multi-operator environments in electricity and gas;
- Oversight of CER statutory responsibilities and corporate governance;
- Assessment of Public Service Obligations (PSO) proposals relevant to Division and implementation of legislation with relevant EU approvals;
- Advancing Ireland's interests at EU and other international fora.

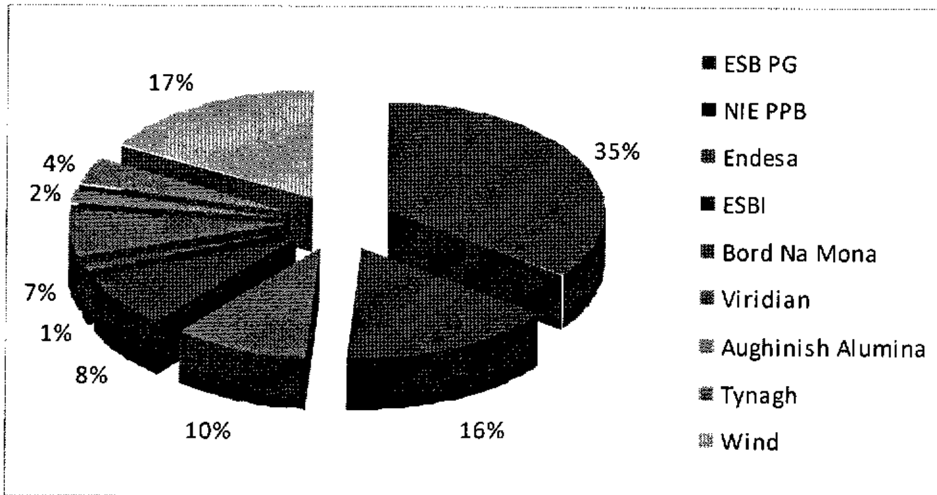
Sectoral Profile

The EU Electricity and Gas Directives provide the framework for electricity and gas market liberalisation in Ireland. Since the introduction of the All-island Single Electricity Market (SEM) in 2007, the transformation of the Irish electricity market from an ESB monopoly to a competitive market has considerably accelerated. There are now four large independent suppliers, including international players, actively competing in Ireland. As in all emerging markets, these suppliers initially target the larger and more profitable customers. The current retail market share by volume of electricity consumption is set out below.

Sector	ESB (Public Electricity Supplier)	Independent Suppliers
Domestic	99%	1%
Small I&C	84%	16%
Medium I&C	37%	63%
Large I&C	9%	91%

In recent months, two independent suppliers (Airtricity and BGE) have entered the domestic electricity market, offering significant discounts on ESB tariffs.

The SEM established, for the first time, a single wholesale market on the island of Ireland in which generators and suppliers of electricity on the island trade all their electricity on a daily basis through a gross mandatory pool.. The latest generation market share information (following the sales of some ESB plant to Endesa) is set out below.



Since the establishment of the SEM, in the Republic of Ireland alone, grid connection applications have been received in respect of 9,000MW of renewable generators and more than 6,000MW of conventional generators. In Northern Ireland, there are connection applications in respect of 90MW of renewable generation and a further 1,200MW in planning. In addition to this unprecedented level of grid applications, the sale of ESB plant to Endesa and the sale of Airtricity to Scottish and Southern has brought two significant international market players into the Irish electricity market.

The gas market has been fully open for all natural gas customers since 1 July 2007.

Eirgrid plc. was established as an independent Transmission System Operator on the 1 July 2006 as a completely separate company from ESB. The Programme for Government confirms the decision to transfer the ownership of the transmission assets from ESB to Eirgrid. On January 1st 2009, ESB Networks Ltd was established as a statutorily independent subsidiary of ESB, to carry out the functions of the electricity Distribution System Operator in a transparent, independent and non-discriminatory manner.

Gaslink, a subsidiary of Bord Gais Eireann, was established in July 2007 as the Independent System Operator for Gas. This has resulted in the legal unbundling of BGE's transmission and distribution businesses from BGE's other businesses.

Key Immediate Issues

All-Island Gas Storage and LNG Study

Results of the Study have been presented to the All-Island Joint Steering Group. Critical aspects of the study centre on security of supply and our heavy reliance on gas imports via undersea pipeline form the UK. Policy recommendations (incl. North / South implications) are currently being developed by the Joint Steering Group's Working Group on Security of Electricity and Gas Supply and will feed in to work to establish policy options on the security of our gas supply.

Gas Market Opening
The natural gas market has been fully opened to competition since 1 July 2007. Since that date, market has been fully contestable.

Electricity & Gas Safety
With the making of SI No 68 of 2008 in March 2008, formal responsibility for the regulation of electrical contractors and gas installers for safety matters has been assigned to the CER.

Infringement Proceedings
In December 2006, the Department received Reasoned Opinions from the EU Commission with respect to alleged failure by Ireland to comply with certain provisions of the Electricity and Gas Directives. Similar letters were issued by the Commission to 16 other Member States. Responses setting out Ireland's views and intentions in relation to the issues raised in the Reasoned Opinions were submitted to the Commission. A decision from the Commission is awaited. If the Commission rules that Ireland is not in compliance it may bring the Case before the European Court of Justice (ECJ). If the ECJ finds against Ireland it may impose a lump sum or penalty payment on the State. Department is fully engaged with the Attorney General's Office and the CER on the issues.

East / West Interconnector
In March 2009, the Government announced that it had given a green light to the development of the €600 million East West Electricity Interconnector following the achievement of several major project milestones. The decision to grant final consent for the project reaffirmed the Government's strong commitment to the delivery of this key strategic energy infrastructure project. EirGrid, as the National Transmission System Operator, will procure the construction of the interconnector, at the Government's request.

The Government decision reflects the significant progress to date in the study and pre-construction phases and positions EirGrid to enter the next phase of delivering the project to schedule, subject to receiving planning permission. EirGrid has now entered into key contracts to develop and construct the Interconnector and ensure its financing.

As a further stimulus to the project, the EU Spring Council Conclusions include an agreement (subject to legal finalisation and European Parliament agreement) on the Community part of the European Economic Recovery Plan, in support of projects in the field of energy and broadband internet as well as CAP Health Check related measures.

The European Commission has included the East West Interconnector on its list of energy projects under the European Economic Recovery Plan, with a proposed allocation of up to €110 million. This is a welcome recognition of the strategic importance of the East West interconnector, which will underpin regional energy market development and the All-island Single Electricity Market. It will ensure that Ireland can benefit from the development of a strong internal energy market in

Europe, enhancing competition, contributing to security of supply and assisting Ireland in meeting our ambitious renewable targets.

Security of Supply
Electricity
Security of supply in relation to electricity in Ireland is the statutory responsibility of the independent Regulator, the Commission for Energy Regulation (CER). The independent Transmission System Operator (TSO), EirGrid, monitors the adequacy of generation capacity over time and reports to the CER accordingly.

The generation adequacy outlook for 2009-11 is positive in light of the scheduled connection of over 860 megawatts of new generation plant in that period;
It is critically important to ensure completion by end 2012 of:

- the 2nd North/South transmission line (to allow for electricity systems North and South to operate on an All Island basis thereby realising the security of supply benefits of the Single Electricity Market); and
- the East/West Interconnector linking the Irish electricity system with that of the UK, thereby contributing to the diversity and security of our electricity supply.

Installed wind capacity currently stands at just over 1000 megawatts. This should rise to at least 1350 megawatts by 2010 allowing for at least 15% of our demand for electricity to be met by wind generation.

Gas
Statutory responsibility for monitoring the security of Ireland's natural gas supply lies with the Commission for Energy Regulation (CER). The most recent advice from the CER is that the existing Irish gas transmission system is sufficient to cope with reasonable expectations of demand, both on the peak and on the minimum day under most conditions for the period 2006 – 2013.

The CER also advises that it is satisfied there is current reasonable certainty over the supplies of imported gas to Ireland, 96% of which come from the UK via 2 subsea interconnectors, in the context of both gas customers and the power generation sector. Nevertheless, diversification of the sources of our gas supply is an important priority. The commencement of production of gas from the Corrib field would provide a very significant improvement to the security of our gas supply for the duration of its production. The planned merchant project to build a Liquefied Natural Gas (LNG) terminal at Shannon would also be positive in this regard, particularly as it would improve our connectivity to the global gas market.

It is in this context that work is underway to establish policy options on gas storage and alternative fuelling for gas fired electricity generating stations.

Recruitment of CER Commissioner
A vacancy for the position of Commissioner will arise later this year as Commissioner Tom Reeves completes his term, having served the maximum ten years.

Medium to Longer Term Issues

The Third Package
On the 22 April 2009 the Energy Third Package proposals were adopted by the European Parliament. It remains for the proposals to be adopted at a forthcoming Council of Ministers meeting. The Package provides for strong national energy regulators, the effective separation of electricity and gas networks from supply functions and the establishment of an Agency responsible for oversight of national regulatory authorities. Ireland has strongly supported the proposals as a means to increasing competition and ensuring the further liberalisation and integration of European energy markets. Following adoption, the Department will be working with industry and the CER to transpose the provisions into Irish law.

Liquid Petroleum Gas (LPG) Safety
The Division has drafted amendments to the Energy (Miscellaneous Provisions) Act 2006 to provide that the CER assume responsibility for safety matters in regard to LPG installers. It is proposed that this amending legislation would be progressed with a number of miscellaneous amendments to energy legislation under an Energy (Miscellaneous Provisions) Bill 2009. The CER intends over the coming months to conduct a consultation in regard to the safety regulation of LPG undertakings taking account of the existing legislative framework with a view to identifying safety enforcement gaps.

Security of Supply
Specific actions are underway to underpin delivery of a secure and uninterrupted energy supply at a competitive cost.

Electricity
Achieving an adequate safety margin between electricity supply and demand will require additional generating plant including flexible plant and significantly higher standards of generating plant availability, as well as more interconnection.

With regard to existing generation capacity, the CER and EirGrid continue to provide assurances that there is sufficient generating capacity, both installed and planned, on the system to meet the predicted demand in the short term.
The generation adequacy outlook for 2009-11 is positive in light of the scheduled connection of over 860 megawatts of new generation plant in that period. It is critically important to ensure completion by end 2012 of:

- the 2nd North/South transmission line (to allow for electricity systems North and South to operate on an All Island basis thereby realising the security of supply benefits of the Single Electricity Market); and
- the East/West Interconnector linking the Irish electricity system with that of the UK, thereby contributing to the diversity and security of our electricity supply.

Installed wind capacity currently stands at just over 1000 megawatts. This should rise to at least 1350 megawatts by 2010 allowing for at least 15% of our demand for electricity to be met by wind generation.

Generation adequacy and supply is being kept under consistent collective review by the Department and consultations are ongoing with the CER and EirGrid to ensure progress on all fronts, including the construction of the new East West and North South electricity interconnectors, aimed at ensuring the adequacy of electricity generation in forward years.

Gas

Security of gas supply is a key priority given the increasing importance of gas in Ireland's economy and in particular our power generation mix, and given our high level of import dependence. Natural gas currently fuels around 60% of power generation in Ireland. Over 85% of the gas supply in Ireland is being met by imports via the interconnectors from Scotland, with the remainder coming from indigenous resources. Timeframe for delivery of Corrib gas is currently 2010/11.

Under the Gas (Interim) Regulation Act 2002, the CER is required to prepare an annual Gas Capacity Statement, which provides a 7-year rolling forecast of capacity, flows and customer demand on Ireland's natural gas system. The forecast also assesses, for a range of possible scenarios, whether projected supplies of gas from indigenous sources, imports and storage, are sufficient to meet forecast demand.

The main conclusions of the 2006 Gas Capacity Statement, which was published by the CER in July 2006 and covers the period 2006 – 2013, are that:

- **Imports** – the reliance on imports from Great Britain via interconnectors with Scotland will remain despite Corrib/Shannnon LNG. Consequently, our gas supply, both in terms of market and infrastructure, will continue to be strongly influenced by developments in the UK.
- **Storage** –Potential storage areas, additional to the 198 million cubic meters currently licensed in the Kinsale field, are being explored in Northern Ireland though it would be some time into the future that this would be operational. The CER highlights the potential of Shannon LNG and 'linepack' (i.e. the gas in the interconnector pipelines to maintain pressure) as alternative storage options. (Note: It is in this context that work is underway to establish policy options on gas storage and alternative fuelling for gas fired electricity generating stations).
- **Gas transmission infrastructure** – a key finding of the GCS is the need to reinforce the gas transmission system to deal with the changing flows brought about by Corrib and Shannon LNG coming onstream and the possible ending of flows from Kinsale. As the situation stands, it would not be possible to accommodate these flows on the system because safe operating pressures could not be maintained. The impact of this would be felt from c. 2014. In light of this CER has asked BGÉ to examine cost effective options for this reinforcement work.
- **Interconnection** – in monitoring the gas supply scenario, the GCS examines the possibility of delays to Corrib production after 2009/10. For some time it has been recognised that delays to Corrib could necessitate reinforcement to the remaining 50km stretch of single pipeline in Scotland. CER has asked BGE to review the need for this reinforcement and to examine cost effective options other than duplicating this stretch of pipeline (i.e. reinforcing other aspects of the Scottish infrastructure associated with the interconnectors), and commercial incentives for peak demand management.

Prices

The Commission for Energy Regulation is responsible for the regulation of electricity and gas tariffs. The CER recently announced a decision to approve a 10% decrease in the ESB electricity tariffs and a 12% decrease in Bord Gais Energy tariffs for the residential and small I&C sector. The decision will take effect from 1 May 2009. The decline in wholesale gas prices has been a significant contributory in making the decreases possible.

Energy costs have been an acknowledged issue for the enterprise sector for several years. The range of policy actions underway under the Energy Policy Framework are delivering certainty and will mitigate costs in the medium term. There is likely to be continued focus on the issue of energy prices and competitiveness in the coming months.

Smart Metering

Smart Metering is a term for the advanced metering system the functionality of which allows for greatly enhanced management of demand for energy.

The pilot phase of the National Smart Metering Programme was launched in September 2008 and is progressing in line with the commitment in the Government's Energy Policy Framework and Programme for Government.

Background

The <u>pilot</u> is due to run until December 2010. The pilot project is <u>crucial</u> to informing the type of technologies, IT and communication systems to be adopted and the timing of the national rollout. The level of change in customer behaviour is also critical to the success of this project.

The pilot phase encompasses two strands. A Technology Trial which will test a number of advanced metering systems and their associated IT and communications infrastructure. This will involve the installation of 8,000 meters across the country.

The Customer Behaviour Trial will determine the potential for smart metering and associated demand management initiatives to effect measurable change in customer behaviour thereby reducing energy demand and shifting demand from peak time. This will involve recruiting approximately 6,000 electricity customers comprising residential and SME's. A range of demand management stimuli will be used to assist consumers in monitoring and managing their electricity usage. These will include Time of Use Tariff, In Home Display (IHD) units and once off financial incentive for participating in trial.

The gas element of the Customer Behaviour Trial will commence once the procurement process has been completed and proposals for gas element of trial have been agreed by Smart Metering Steering Group, which is chaired by the CER and consists of representatives from DCENR, ESB, BGE and SEI. Independent suppliers are also involved.

<u>Agencies</u>

Commission for Energy Regulation (CER)

Commissioners: Mr Michael Tutty (Chairperson), Mr Tom Reeves , Mr. Dermot Nolan

Key Industry/Stakeholder Groups

Office of the Attorney General

Office of the Parliamentary Counsel

Government Departments including in particular Department of An Taoiseach, Department of the Environment, Heritage and Local Government, Department of Enterprise, Trade and Employment and Department of Finance
Government Agencies
Oireachtas
Bill's Office
Energy undertakings
CER
ESB
EirGrid
BGE
Gaslink
EU Commission
DETI-Northern Ireland
Northern Ireland Regulator
DECC, London.

Oil Supply, Oil, Gas, Grid and Peat Corporate Division

Head of Division: Katherine Licken, Principal Officer

Functions of Division

The Division has Corporate Governance responsibility for four commercial state energy companies - Bord Gáis Éireann, Bord na Mona, EirGrid, the Irish National Petroleum Corporation - and the non-commercial semi-state National Oil Reserves Agency. The corporate governance brief extends to the implementation of Government policy across a range of areas, and working within the overall energy team. The Division also has responsibility for Oil supply policy, which encompasses ensuring Ireland meets its strategic oil stocks requirements in line with EU and international obligations. The functions of each area are dealt with separately hereunder.

Peat / Bord na Mona

The Division is concerned with a range of issues relating to peat policy, and specifically to Bord na Mona, including:

- the exercise of shareholder and corporate governance functions in relation to Bord na Móna;
- oversight and related of Bord na Mona corporate Strategy including, diversification proposals, consideration of proposals to enter into joint ventures or to establish, acquire or dispose of subsidiary companies.

Sectoral Profile

Bord na Móna is a significant player in Ireland's energy market. It provides one of the only sources of indigenous energy and contributes significantly to the economy of the Midlands region with average employment for the financial year 2007/2008 of 2,040 staff.

A Public Service Obligation (PSO) Order imposes an obligation on ESB to have available electricity generated from indigenous peat at the three peat-fired power stations (two ESB and one Bord na Móna owned plant). For security of supply reasons, indigenous peat will continue to make a contribution to the energy mix used to generate electricity underpinned in the PSO Order.

BnM's corporate strategy involves diversification into renewable energy, the development of the company's environmental solutions businesses (waste management, waste-to-energy and horticulture), maintaining its existing peat-stock and solid fuels business and extracting best value from its land and property asset portfolio.

The Department is working intensively with the company in refining and developing its Corporate Strategy, to ensure that it is rolled out commensurate with the company's finances and consistent with Government policy.

Co-firing power stations with biomass offers identified potential to assist in meeting Government targets of electricity produced from renewable energy sources and a target of 30% by 2015 has been set, in the Programme for Government/Energy Policy Framework.

[redacted]

Key Immediate Issues

Monitoring of Corporate Strategy: The Division will monitor the development of the strategy, particularly peat-fired generation, waste-to-energy and energy from renewable sources such as co-fuelling and wind.

Co-Fuelling (Biomass): Bord na Móna plc intend to use its recently-purchased Edenderry plant to experiment with the use of carbon friendly materials to co-fuel the station. The co-fuelling will be introduced progressively over the next five years and will include wood and energy crops.

Drehid: Bord na Móna is in the process of developing a waste management facility including a composting facility and an engineered landfill at Drehid in north-west Kildare. The company is also actively pursuing the development of new waste-to-energy treatment facilities in tandem with its waste collection and landfill activities.

Energy: Bord na Móna's Wind energy project at Oweniny (320MW) received phased Grid Connection offers in the GATE III process run by CER/Eirgrid and [redacted]

Advanced Environmental Solutions (AES): In 2007, Bord na Móna plc purchased AES, a waste collection company, [redacted] Subsequent to the purchase of AES, Bord na Móna has made further strategic investments in waste companies including Goff's Recycling. This acquisition will develop further channels for securing material, which would otherwise end up in landfill, for Bord na Móna's Kilberry Green Waste Composting Facility and for the Drehid Waste Composting Facility. A new waste processing system to improve the segregation of recyclable materials was installed at AES Portlaoise. The Company's strategy is to use the waste collection infrastructure network to maximise the level of biomass waste that can be collected and recycled through its horticulture and biomass co-firing business, and to develop innovative waste-to-energy projects from traditional waste streams.

Employee Share Ownership Scheme (ESOP): The Bord na Móna ESOP was successfully concluded in 2009.

Dividends: Bord na Mona plc paid its first dividend to the State of €3.85 million, on 19 June 2006

Pension Schemes: Bord na Móna currently has a deficit of [redacted] in its pension schemes. There are two principal schemes, which were to be amalgamated in 2008. The down turn in pension schemes has significantly impacted on the schemes however, and current attention is focussed on finding a solution to the deficit. The deficit has attracted media attention in recent months.

Medium to Longer Term Issues

Strategy Development Process: Continuous review and monitoring of Bord na Móna's Strategy development in support of Government energy policy The main areas of responsibility of each of the Energy Divisions together with key immediate issues and medium to longer term issues are set out in the following pages.This includes continued use of peat in the energy mix, waste-to-energy facilities, co-fuelling of existing peat plants with renewable resources, and wind energy.

Agencies under the aegis of the Division:

Bord na Móna plc.

Key Industry/Stakeholder Groups

Bord na Móna plc
Edenderry Power ltd (now a subsidiary of Bord na Móna plc)
ESB

<u>Oil Supply</u>

In the Oil Supply area, the Division is concerned with:-

- The development and implementation of Ireland's strategic oil supply policy, with particular regard to the areas of contingency planning and Ireland's associated international obligations, in order to ensure an effective system of security of supply at times of physical oil supply disruption.
- The exercise of shareholder functions in relation to the Irish National Petroleum Corporation (INPC) and the National Oil Reserves Agency (NORA).
- Making provision for the future management of certain long-terms issues arising from the terms and conditions of the Sale and Purchase Agreement (SPA) concluded between the INPC and Tosco (now ConocoPhillips) in July 2001 and running until 2016.

- Legislative (Primary/Secondary) development as required
- Operation of the NORA Levy (which funds NORA's operations).
- Inputting into the formulation of EU/IEA policy regarding oil stockholding/contingency issues.
- Negotiating new/revised oil stockholding Bilateral Agreements with relevant Government Administrations to facilitate cover for NORA oil stocks held abroad.
- Statistical data on oil stocks, imports, exports and consumption, to satisfy IEA and EU requirements and for national /Departmental use.

Sectoral Profile

Oil remains the dominant energy source in Ireland. In 2005 oil and oil products accounted for approximately 60% of Ireland's Total Primary Energy Supply (TPES).

Ireland's oil market is small (less than 1% of European consumption) and effectively operates as an off-shoot of the UK market. The oil industry – refining, storage, distribution and retail[1] - in Ireland is fully privatised, liberalised and deregulated. Geographically remote, and with no indigenous oil production or pipeline interconnectivity, Ireland relies on sea borne importations, primarily from refineries on the UK west coast.

There is no price control of oil and oil products in Ireland. Ireland is a price taker from the international market. The National Consumer Agency undertook an investigation into diesel and petrol price movements in Ireland, in 2008. This report was published in December and concluded that there is little evidence to suggest unwarranted delays in the passing on of wholesale price changes to the consumer at the pump. It also noted that direct comparison between fluctuations in crude oil prices and petrol and diesel pump prices is inappropriate and does not reflect the reality of the petrol and diesel supply chain. Comparisons with quoted refined prices are more appropriate for this purpose. The report pointed to difficulties in oil price reporting mechanisms, both in Ireland and within the EU. The Department is actively working with the oil industry to design a more market reflective oil price statistical reporting regime.

The State's involvement with operational aspects of the oil industry ceased with the sale of the business and commercial assets (Whitegate refinery, Cork; Bantry Storage Terminal, Whiddy Island, West Cork) of the Irish National Petroleum Corporation (INPC)[2] to the Tosco Corporation in July 2001 under the terms of a Sale and Purchase Agreement (SPA).

Arising from a subsequent take-over and a merger, the Whitegate and Whiddy facilities are now operating as part of the Conoco Phillips (CP) group.

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[1] Petroleum Affairs Division deals with exploration & production aspects of the oil industry.
[2] The INPC has no operational capacity since the disposal of its business and commercial assets (Whitegate refinery; Bantry oil terminal) in July 2001. The company's current activities are limited to (i) it's rights & obligations under the Sale & Purchase Agreement (SPA) arising from the 2001 transaction (primarily involving environmental claims lodged against INPC) and (ii) meeting requirements arising from its role as parent company to its remaining subsidiary NORA, which did not form part of the 2001 transaction

State Involvement – National Strategic Oil Stocks

Arising from its membership of both the European Union (EU) and the International Energy Agency (IEA) Ireland has international commitments to maintain reserves of national strategic oil stocks. Since 1995 the National Oil Reserves Agency (NORA) has had responsibility for purchasing oil or entering into contractual "options to buy", together with holding and maintaining these reserves.

NORA acts as an agent of the Minister for Communications, Marine and Natural Resources and is 100% funded by a levy imposed on the consumption of oil products ("the NORA Levy").

NORA was originally established as a subsidiary of the Irish National Petroleum Corporation (INPC). Following the disposal however of the INPC's commercial assets in 2001 it was decided to establish NORA, which had not formed part of the transaction, under primary legislation as a statutory agency. The NORA Act 2007 was signed in mid-March 2007.

Key Immediate Issues

[redacted]

Oil Supply Emergency Measures: In 2008, the Department published a Handbook on oil supply emergency contingency measures, which details the relevant stakeholders, legislation and potential actions to be undertaken in the event of a serious oil supply disruption. In 2009, this will be complemented by a more detailed emergency plan, which will be informed by a structured emergency exercise to take place in September.
The proposed new Oil Stocks Directive is currently the subject of intensive negotiation at EU level. The proposed new Directive contains a number of provisions which could cause difficulty for Ireland in managing its strategic oil stocks. Ireland is however in a stronger position than other Member States who do not have dedicated stock-holding agencies and who rely on industry for much of their strategic stock-holding. The Commission wishes to rebalance strategic stockholding in favour of agency held stocks which are readily accessible in the event of an emergency.

Medium Term Issues

Security of Commercial Oil Supplies into Ireland: In 2008, the Department published a report it commissioned, by international oil consultants Purvin & Gertz. The report recommended a series of actions to strengthen Ireland's security of access to oil supplies, including a number of infrastructural developments and an increase in the volume of strategic stocks held on the island of Ireland. [redacted]

[redacted]

Irish National Petroleum Corporation: The INPC remains as a shell company, following the sale of the Whitegate Refinery and has a number of obligations relating to environmental claims, arising from the Sale and Purchase Agreement for the 2001 transaction. These expire in 2016. [redacted]

<u>Agencies Under the Aegis of the Division:</u>

Irish National Petroleum Corporation (INPC)

National Oil Reserves Agency (NORA)

Board Composition/Vacancies
Since September 2003 the Boards of the INPC and NORA have common membership, although Members retiring from the INPC Board have not been replaced, due to its decreasing size, and additional members have since been added to the NORA Board. The next vacancies (2) arise in INPC in 2009.

<u>Key Industry/Stakeholder Groups</u>

Irish National Petroleum Corporation (INPC)
National Oil Reserves Agency (NORA)
Oil Industry/Oil Consumers/Whitegate Refinery/Oil Storage Companies
Irish Petroleum Industry Association (IPIA)
(The representative body of companies in Ireland engaged in the importation, distribution and marketing of petroleum products).
International Energy Agency (IEA)
EU Commission

EirGrid

Functions of Division

- The exercise of shareholder functions in relation to EirGrid
- General analysis and monitoring of EirGrid corporate plans, business plans, etc.
- Approval of Capex projects, creation of subsidiaries, borrowings
- Ensuring EirGrid compliance with existing legislation and best corporate governance practice
- Drafting of EirGrid related legislation as required
- Matters relating to Pension Schemes, CEO pay, board operation
- Support for the company in delivering on its mandate in relation to transmission development, in the context of Government policy objectives.

Sectoral Profile

The company was established to act as the independent transmission system operator (TSO), in line with the requirements of the EU Electricity Directive 96/92EC. Significant progress on the establishment of EirGrid as a fully functioning operational entity has been made over the last year and the company took over the role of independent Transmission System Operator on 1 July 2006. EirGrid is now fully responsible for operating, ensuring the maintenance of, and developing, the electricity transmission system in Ireland, and is the transmission system operator and market operator for Ireland in the context of the Single Electricity Market. In 2009, EirGrid purchased the Northern Ireland Transmission System Operator, SONI, and it is anticipated that this will bring further economies of scale and benefits to the operaton of the single electricity market.

In 2009, legislation was enacted to increase EirGrid's borrowing limit and allow it to build, own and operate an interconnector. The legislation was brought forward in the context of the East West Interconnector which is scheduled for completion in 2012.

Key Immediate Issues

***Transfer of Transmission Assets from ESB to EirGrid*:** The transfer of the transmission assets from ESB to EirGrid is a key priority as reflected in Programme for Government. [redacted]

***East-West Electricity Interconnection*:** The Government has given its final consent for the contstruction of the East-West Interconnector and EirGrid has placed contracts for the interconnector with ABB. Planning consents have been lodged with An Bord Pleanála and a decision is expected in mid-2009.

North South and Meath Cavan Transmission Lines: EirGrid is currently developing two major transmission projects in the North East. The Meath Cavan and Cavan Tyrone transmission lines (the latter of which is also an interconnector and is being developed in tandem with Northern Ireland Electricity), are currently the subject of pre-planning consent application consultations. These projects have presented particular challenges for EirGrid. Opposition to the projects centres around a campaign to have the lines undergrounded. An independent study, commissioned by the Department in 2008, found that for technical and economical reasons it would not be feasible (nor would there be precendent) for undergrounding of high voltage, long distance electricity transmission lines. A site-specific report by EirGrid's consultants came to broadly similar conclusions. This has been challenged by North East Pylon Pressure, a representative group, who commissioned their own report on undergrounding.

EirGrid recently selected and published a preferred route for the two lines and are engaging with land-owners and preparing a detailed Environmental Impact Statement for the project. [redacted]

Grid25: EirGrid launched its Grid Development Strategy, Grid25, in October 2008. The capacity of Ireland's transmission grid has remained largely unchanged in the last 20 years, despite growth of 150% in electricity demand being carried by the system. Grid25 presents a 17 year plan for the development of the transmission grid. The strategy will require careful planning and implementation, particularly given the challenges facing grid infrastructure development, in terms of public perception.

SONI: In 2009, EirGrid successfully concluded a transaction to purchase the Northern Ireland transmission system operator (SONI). The transaction will bring economies of scale to the All-island electricity market operation. [redacted]

Agencies under the aegis of the Division

EirGrid plc

Board Composition / Vacancies: The EirGrid Board comprises 10 Members, including the Chairperson and the CEO (who is an *ex officio* member). Directors (excluding the CEO) may be appointed to and removed from the board by the Minister with the consent of the Minister for Finance.

[redacted]

A further board vacancy will arise in September 2009.

Key Industry/Stakeholder Groups

Government Departments, Government Agencies, CER, ESB, EirGrid plc, EU Commission, Electricity undertakings operating in the Irish market and also potential new entrants into the market.

Gas / BGÉ

Functions of Office

Gas (Corporate) Division is concerned with –

- the exercise of shareholder functions in relation to Bord Gáis Éireann;
- general analysis and monitoring of Bord Gáis Éireann corporate plans, diversification proposals, consideration of proposals to enter into joint ventures or to establish, acquire or dispose of subsidiary companies, etc.

Sectoral Profile

BGE was established under the Gas Act, 1976 to develop and maintain a system for the supply of natural gas that is both economical and efficient. To date, BGE has constructed 2,169 kilometres of Transmission pipelines, (including 2 sub-sea Interconnectors) and a national Distribution pipeline network of 9,765km. In 2006. natural gas was supplied to over630, 000 customers. BGÉ have recently connected the towns of Ballina, Castlebar, Claremorris, Craughwell, Crossmolina, Headford and Westport to the Mayo – Galway pipeline. Work continues on connecting the towns of Knock, Ballyhaunis, Tuam and Athenry to the pipeline.Natural Gas is now available in over 146 population centres within 19 counties throughout the country. 6 new towns met the economic criteria for connection to the natural gas network and were approved by the CER for connection in October 2007. The towns of Cashel and Monasterevin have been connected and work continues on connecting the towns of Ballinrobe, Cahir, Cashel and Monasterevin.

Firmus Energy, a subsidiary of BGÉ, continues to connect customers to 9 of the 10 towns in Northern Ireland for which they were awarded a franchise to supply gas. It is expected that the remaining town of Armagh will be connected to the gas network later this year.

Approximately 90% of all the natural gas used in Ireland is being imported through the two BGE subsea interconnectors with the balance coming from indigenous sources. It is estimated that indigenous gas could supply a maximum of 60% of the country's requirements if the Corrib gas field becomes operational.

The increasing liberalisation of the Irish gas market has meant that since July 2004 industrial / commercial customers can now source their own gas or switch suppliers. Since 2007, residential customers can also sources their own suppliers. Independent Shippers/Suppliers accounted for 63% of total gas sold in Ireland in 2006.

BGE has consistently paid a Dividend to the State since 1982. [redacted]