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BUSINESS EUROPE

Erin Go Dark

 By **CONSTANTIN GURDGIEV** and **PETER NOLAN**
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DUBLIN -- Last month, the European Commission launched a bid to open up energy markets across the EU, with the aim to improve competitiveness and energy security. Yet when it comes to high prices, alleged abuses of monopoly power and dangerously overstretched electricity networks, perhaps no country faces bigger problems than Ireland. Without reform, the "Celtic tiger," as Ireland has been known during its continuing economic boom, could become a Celtic slug.

Businesses in Ireland are becoming increasingly concerned about rising business costs. According to 2005 figures from Eurostat, Ireland's electricity prices for industrial users are the highest in the EU: 34.1% above the EU-15 average and 57.2% above the U.K. rate. Electricity is 6.9% more expensive in Ireland than in Italy, the country with the second highest prices of the EU-15. "There are worries about whether we can keep the lights on," says David Manning, environment chief for the Irish Business and Employers Confederation. "That is a nonsensical situation."

For households, electricity prices jumped 41% from 2000 to mid-2005, according to Sustainable Energy Ireland, a state agency. That was the highest increase in the EU-15. Failures are increasingly likely: 57 warnings of power cuts were issued last year, more than double the 2004 figure of 27.

Lack of competition is the obvious culprit. The state-owned and regulated Electricity Supply Board (ESB) controls about 85% of Irish power generation. Once known for a strong ethos of public service, today's ESB is a cash cow for the unionized work force. The latest audited accounts for the ESB, from 2004, show the average pay package for employees totaled €71,700 a year. In 2005, the average industrial wage in Ireland was less than half that -- around €33,500. At one ESB power station in Dublin, workers took home a whopping €140,000 per year on average! And then there is the prospect of massive restructuring payouts, pensions and other benefits the government might hand out as it attempts to reform the industry.

According to a report released last month by Forfás, the state industrial-policy research group, the ESB has also left Ireland overly dependent on oil -- all of which we must import. Renewable sources such as wind have struggled to establish themselves both at the wholesale and small-production levels, even though Ireland has some of the best potential sites for wind farms in Europe.

At a wholesale level, while Europe has made a determined drive for alternative energy, Ireland has had a moratorium on adding new wind generators to the national grid since 2003. On April 4, the European Commission sued Ireland for failing to meet an October 2003 deadline to comply with EU

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legislation on renewable energy.

Airtricity, the Ireland-based wind-power giant, was left unable to provide its green electricity to Irish households and pulled out of the residential market. The company complained that it had been "failed by the electricity market rules which have not provided a framework for any form of effective competition." Other large players followed suit, including E.On and RWE of Germany and Statoil of Norway.

A report produced by the British consultancy Energy Link Partnership, and commissioned by Airtricity, found that from August to November 2005, ESB decisions on how to run the spill markets designed to cover excess demand for electricity at peak times, were "unusual," "arbitrary" and "unilateral." Airtricity Northern Ireland Chief Executive Mark Ennis told *Business & Finance* magazine last month that ESB "ran the most expensive plant they could," passing the costs on to independent producers.

Commenting on the Energy Link report, Mr. Ennis further alleged that, for at least three months in 2005, "when it actually came to the running of the system, 32% of the time the price was set by the most expensive plant and that plant never ran. So the Irish consumer was being billed for something that never occurred for 32% of the time."

According to the confidential report, which Airtricity provided to the authors of this article, "at the time when capacity was already tight, [the] ESB plant failed to perform when required and caused a capacity crunch." The ESB, it said, also manipulated electricity prices by switching out of cheaper fuels into more expensive sources of energy by "reducing output level" and using more expensive plants instead of the available cheaper facilities. Overall, this provided ESB with a "massive scope to set prices at any level" -- a market power usually only available to unregulated monopolies.

According to Energy Link, "Due to the essentially self-dispatch nature of the market...if for its own reasons, the ESB decides to nominate only its expensive-to-run plant, then this would often happen and spill prices would be very high even if there were to be a significant generation reserve available." The report documents several instances in 2005 when this practice resulted in Irish wholesale prices reaching 181% of the EU-15 average price. The costs of all of these market power abuses are simply passed onto the ESB's small competitors and customers. Fed up, Airtricity is now considering taking the ESB to court, Mr. Ennis said.

On paper, deregulation of the Irish market occurred in 2000, following numerous European Commission directives. But the CER has proven weak and accommodating, prompting Mark Fielding of the Irish Small and Medium Enterprise Association to accuse the CER of becoming "the ESB's out-of-town office." Energy Link concluded that the current regulatory methodology "is clearly flawed and unable to provide meaningful market-related prices."

Amid the abuses of dominant market power by the ESB, Irish authorities remain largely silent -- at least in public -- on the matter of Ireland's deteriorating energy security. An outside review of the country's energy sector, ordered by the minister for communications, marine and natural resources at a reported cost of €1.2 million, is being kept secret -- out of the hands of Parliament, the press and the public. The minister, Noel Dempsey, says the review contains confidential information from third parties.

It's time to break up ownership and management of the transmission grid and sell off the power stations to the private sector to introduce genuine competition. It is also time to lower planning, regulatory and pricing barriers to market access for independent producers and distributors. The moral of the sad story of electricity in Ireland is that power corrupts, but monopoly power corrupts absolutely.

Mr. Gurdgiev is a lecturer in economics at University College Dublin and editor of Business & Finance magazine. Mr. Nolan is director of environment and energy studies at the Stockholm

Network.

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