

ESB Press Statement 19 January 2022: Wholesale Electricity Market Statement

In recent weeks, allegations have been made in relation to ESB's participation in the electricity market during Quarter 3 of 2021 (Q3 2021). ESB has strongly refuted these allegations and any suggestions of wrongdoing.

1. Increase in electricity prices

Electricity price increases have been predominately driven by the unprecedented increase in international wholesale gas and carbon prices over the last 12 months. These commodity price increases have driven general electricity prices. During Q3 2021, strong electricity demand, low wind and reduced availability of generation capacity lead to a situation in which, at the same time, less efficient generation plants were being operated more extensively than normal to meet demand which also put upward pressure on electricity costs.

The rise in international commodity prices has seen gas prices reaching historically high levels over the last year, with a six-fold increase in international wholesale gas prices from Q3 2020 to Q3 2021. It is this extraordinary increase in gas prices which has been the predominant driver of increases in wholesale electricity prices in Ireland, Great Britain and across Europe. The chart below shows how gas price has driven electricity prices over the last number of years, including the impact over the last 12 months. In Ireland, this has driven the average Integrated Single Electricity Market (ISEM) day-ahead wholesale electricity price from €37 per MWh in Q3 2020 to €156 per MWh in Q3 2021

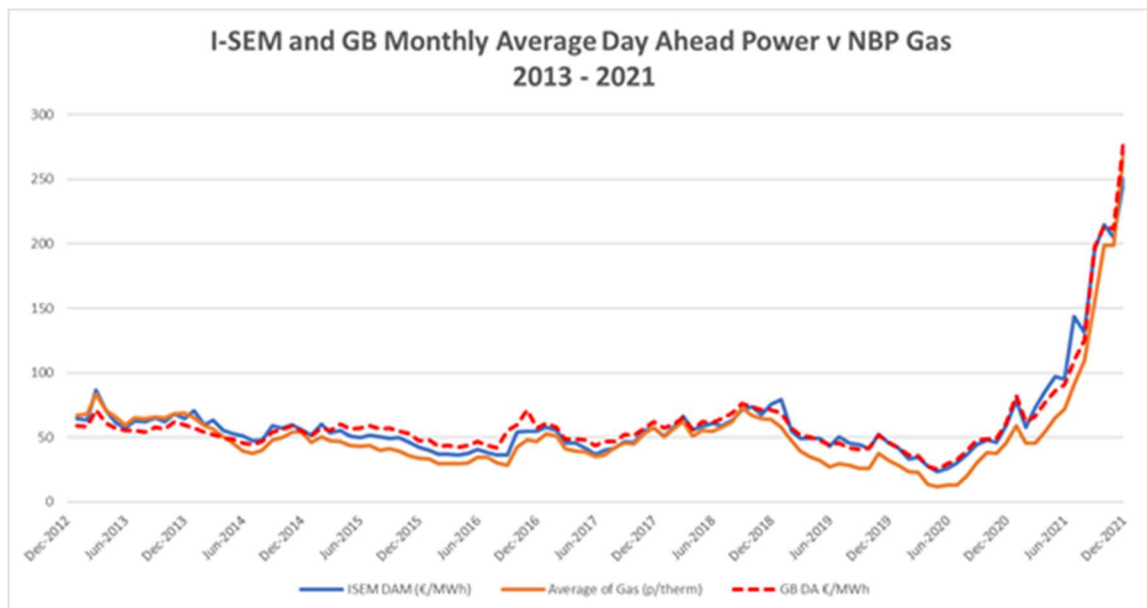


Chart: Impact of Gas Price on Wholesale Electricity Prices in Ireland and Great Britain

2. ESB's Profits from the sale of wholesale electricity.

In ISEM, ESB Generation sells the vast majority of its electricity to Supply Companies by way of forward contracts, reducing exposure to short-term market volatility for ESB, Supply Companies and ultimately customers. Under these contracts an electricity price (often referred to as the "strike price") is agreed with the Supply Company and these contracts are often executed for durations of 12 months. Under these arrangements, if the day-ahead electricity price is higher than the strike price, ESB Generation passes back this value to the relevant Supply Companies, meaning that the Supply Companies only pay the strike price. Therefore, even though wholesale

day-ahead electricity prices have increased significantly in 2021, this has not translated into a commensurate increase in ESB's energy margin. (Energy margin is the difference between the price received by ESB for electricity and the variable costs associated with producing that electricity and it does not take into account fixed costs).

In fact, the total energy margin earned by ESB Generation in Q3 2021 was of a similar order of magnitude to that in the same quarter of the previous year.

3. ESB has consistently offered electricity at competitive prices in the wholesale electricity market

The Integrated Single Electricity Market is complex. It consists of three markets which interact with each other. These are the Day Ahead Market, the Intra Day Market and the Balancing Market.

ESB Generation bids into these markets at different prices depending on a range of circumstances including the price of commodities, the costs of operating plants and observed prices in the prevailing markets. The bids on any given day for plants will vary but ESB Generation has consistently, since the advent of the ISEM, bid into the various ISEM markets using the same approach and principles.

ESB Generation's bids are competitive in the wholesale market. ESB's average offer price for baseload gas plant in Q3 2021 was €124 per MWh, which was lower than the market average outturn price of €156 per MWh in that period.

Very small volumes of electricity were offered at higher prices in Q3 2021 and these were reflective of market conditions and prevailing market prices at those times. These bids were fully compliant with market rules and regulations and represented a tiny volume of offers in Q3 2021, amounting to 0.2% of all MWh offered by those gas plants in this three month period.

When the allegations were first raised in October 2021, ESB brought these allegations to the attention of the Regulatory Authorities and subsequently, ESB received and responded to questions from them in respect of bidding in this period.

While extraordinary increases in gas prices have led to unprecedented increases in day ahead electricity prices, ESB has consistently bid competitively and in accordance with market rules.