

Electric Ireland Update on Wholesale Markets and Retail Pricing

3rd March 2023

- **While wholesale gas prices have fallen they are still approximately 350% higher than in 2020**
- **Buying electricity in advance (hedging) saved each Electric Ireland residential electricity customer €650 over the last two years**
- **Electric Ireland has a cheaper standard rate of electricity than any other company in the market**
- **The cumulative price increase for both residential and SME business customers are consistent**
- **Electric Ireland did not make any profit from residential electricity customers last year and returned €55 Million to customers via a credit of €50 on each bill**
- **Electric Ireland is only one part of ESB's business and is not permitted to subsidise its prices with revenues from other parts of the company**

Key points

- **Across an 18-month period from mid-2020 to the end of 2021**, prior to the onset of the conflict in Ukraine, **wholesale gas prices increased in the region of 400%**. **As a result of having hedges in place, Electric Ireland was in a position to delay increasing its prices for almost a year**, and in much smaller increments, starting in August 2021 with an increase of less than 10%. Our assessment indicates that hedging is estimated to have reduced the cost for a typical residential electricity customer across 2021 and 2022 by €650.
- **While wholesale prices have fallen in recent months**, particularly so since their peak in Q3 2022, **they remain** at levels substantially higher, in the region of **350% higher, than their levels two years ago**.
- **The cumulative price increase for both residential and SME business customers** since the start of the energy crisis **are in line with each other**, although timing of price change announcements can be different across sectors.
- **Electric Ireland** has not increased residential prices since October 2022 and continues to offer the **lowest cost Standard Variable Tariff (SVT) for residential customers**. Our SVT prices are 5% cheaper than our nearest competitor and between 6% and 9% cheaper than our major competitors.
- Electric Ireland decided, **in 2022, to forgo profits** in its residential business for that year by **giving a €50 credit to each of its 1.1M residential customers**.
- **Electric Ireland is not permitted to subsidise its retail prices with revenues earned across other parts of ESB.**

Market and Pricing Context

ESB is made up of a number of separate business units including generation, networks and retail. All of these businesses are required to operate on a standalone basis. Electric Ireland is the retail division of ESB sourcing electricity and gas from the wholesale markets to sell to its customers in the residential and business sectors. The primary driver of wholesale electricity prices in Ireland are wholesale gas prices in Britain, which have seen prices increase since mid-2020 reaching extraordinary levels with unprecedented and ongoing volatility over the past two years.

Exposure to the wholesale market is managed by hedging, whereby volatile variable market prices are replaced with fixed prices in the forward market. The purpose of hedging is to reduce uncertainty in energy costs; to reduce the exposure to extreme market prices; and to stabilize costs and price offerings to customers. Recent volatility in the markets has highlighted the importance of hedging, no more so than in the last year as a number of supply companies exited the market as a consequence of the price volatility. At a high-level, Electric Ireland hedges the wholesale exposure to its Standard Variable Tariffs up to 18 months in advance in incremental volumes. This delivers an average energy cost over a period, which is a key input into customer prices.

The process of hedging introduces a time lag between movements in the wholesale market and movements in retail prices which is a function of both the rate of change in the wholesale market and the duration of forward hedging positions.

By way of an example:

Across an 18-month period from mid-2020 to the end of 2021, prior to the onset of the conflict in Ukraine, wholesale gas prices increased in the region of 400%. This increase was driven at the time by low levels of LNG supply to Europe from international markets; persistent disruptions of Norwegian gas supply; reduced flows of Russian gas; and growing uncertainty around the flow of gas via the Nord Stream 2 pipeline. While wholesale market prices increased significantly through this time, as a result of having hedges in place Electric Ireland was in a position to delay increasing its prices in response to these wholesale market increase for almost a year, and in much smaller increments, starting in August 2021 with an increase of less than 10%. Refer to Figure 1 below.

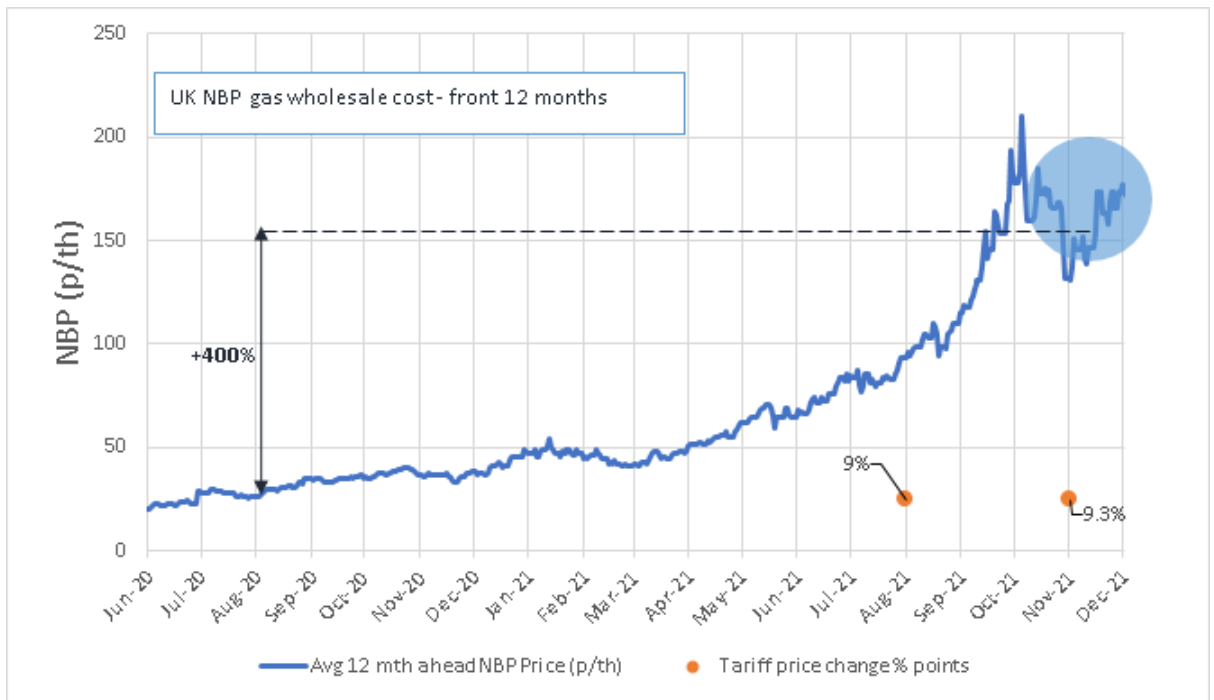


Figure 1: Wholesale Gas Market Movements and Retail Price Changes across 2020/21

Ultimately the impact of the wholesale gas market increases across 2020 and 2021 impacted customers starting in August 2021 and continuing into 2022 through significant increases announced by all energy suppliers across the market. Figure 2 sets out residential electricity prices increases made by Electric Ireland along with their cumulative level through this time. The delay between increases in the wholesale market and increases in customer prices are attributable to hedging. Our assessment indicates that hedging is estimated to have reduced the cost for a typical residential electricity customer across 2021 and 2022 by €650.

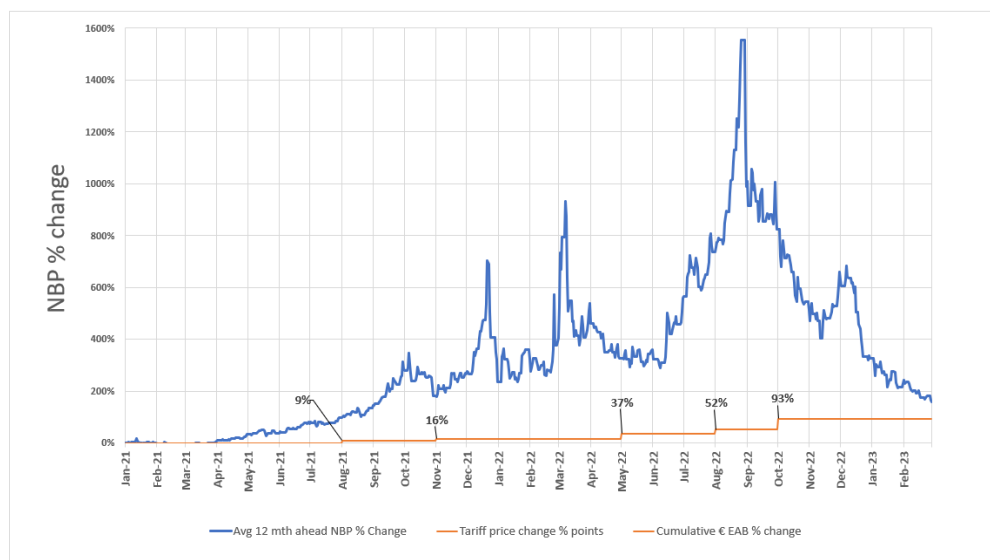


Figure 1: Wholesale Gas Market Movements and Retail Electricity EAB¹ changes across 2021/22

¹ Estimated Annual Bill based on consumption of 4,200kWh for one year.

Through 2022, conditions in the wholesale market deteriorated even further with the onset of the conflict in Ukraine and the associated concerns from European gas supply.

Increases in wholesale energy prices have impacted Electric Ireland's customers significantly. At present the cumulative price increase for both residential and SME business customers since the start of the energy crisis are in line with each other, although timing of price change announcements can be different across sectors.

For example, Electric Ireland recently increased prices for SME business customers in January 2023 on the basis of energy costs in the market in late 2022. The fall in the market price since then has allowed Electric Ireland to reverse that increase somewhat in March 2023. On the other hand, Electric Ireland has not increased residential prices since October 2022, and continues to offer the lowest cost standard variable tariff for residential customers in the market while at the same time forgoing profit from its residential electricity business in 2022.

Looking ahead, significant levels of uncertainty remain in the wholesale market over the near and medium term. While wholesale prices have fallen in recent months, particularly since their peak in Q3 2022, they remain at levels substantially higher, in the region of 350% higher, than their levels two years ago. Expected wholesale costs for 2023 are largely set by wholesale prices throughout 2022. It will be expected that over time, as new hedges based on prevailing forward market prices are procured, wholesale costs will converge to new market levels.

Electric Ireland is acutely aware of the impact of energy bills on families and businesses and will continue to keep its prices under review. We have put in place a range of support measures, including bill payment plans and increasing the Electric Ireland Hardship Fund from €3 million to €5 million in December 2022. Information on all our supports is available on the [Support Hub - Help & Support for our Customers | Electric Ireland](#)