

ESB Networks Review



Environmentally friendly vehicles will reduce emissions from the fleet by up to 90%

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Operational Review

2008 was a significant year for ESB Networks. The ongoing investment programmes to extend and renew the Transmission and Distribution networks, together with supporting IT systems, continued during the year. Approximately €630 million was spent on the networks in 2008, as part of an overall €6 billion investment programme over this decade. Arising from this continuing investment programme, there has been a marked improvement in the overall continuity of electricity supply to customers over the last number of years.

During 2008, the business launched its Sustainable Networks strategy. As described below, this is a major commitment by ESB Networks to the future of Ireland and all electricity customers.

Profit after tax for Networks was €49 million, a decrease of €90 million on the results for 2007. Included in the accounts

for 2008 is a provision of €125 million (Networks' share of the €300 million rebate). This amount will be paid by ESB Networks in 2009 to EirGrid and will reduce the Transmission charges to the entire market. This was agreed with the Commission for Energy Regulation (CER) as part of a reduction in the electricity costs of all electricity customers in 2009, irrespective of their supplier.

Sustainability

Throughout 2008, ESB Networks has put in place the building blocks to progress its vision to be a leading utility in terms of sustainability and smart networks.

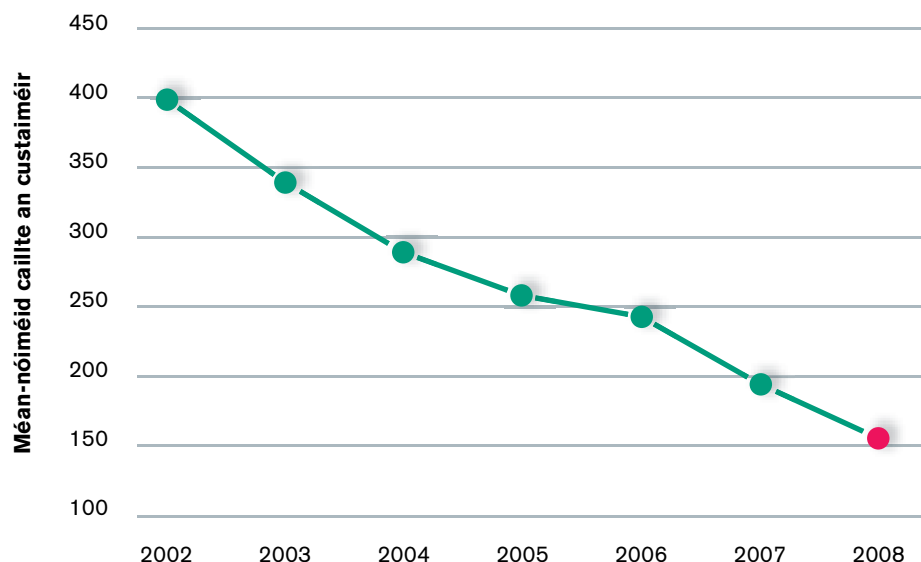
The new sustainability strategy includes the following initiatives:

- ★ A restructuring of the organisation and management structure to specifically focus on sustainability;

How has Networks' investment programme reduced customer outages?

61%

Customer outages have reduced by 61% since 2002



- ★ Creation of an integrated smart network vision. The vision includes the following objectives:
 - Integration of electricity from renewable energy sources into the energy system;
 - Engineering smarter electricity networks;
 - Establishing smart metering throughout Ireland; and
 - Support for electric vehicle infrastructure.
- ★ Establishment of a dedicated Smart Metering project. During 2008 ESB Networks successfully commenced a customer behaviour and smart metering technology trial. This project is on target and will continue until 2011;
- ★ Development of a microgeneration initiative to stimulate this sustainability market in Ireland;
- ★ Continued roll-out of a network automation programme, live line working and continuity initiatives to enhance service;
- ★ Commencement of a number of smart network initiatives, including network self-healing pilot, having completed the upgrade of core network IT systems and progressed an integrated IT platform to support our smart network initiatives into the future;
- ★ The roll-out of an intensive internal sustainability programme to reduce our internal carbon footprint, including the introduction of electric vehicles and biofuel to our fleet; and
- ★ Formation of strategic alliances with national and international R&D institutions to help progress the ambitious smart network roadmap to 2020.

Changing Market Environment

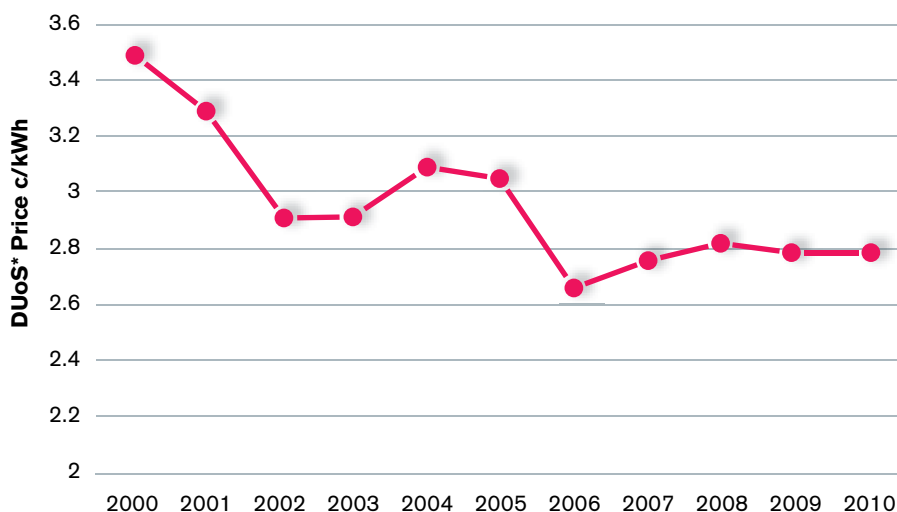
With effect from 1 January 2009, ESB Networks Limited was established as a separate company to act as the independent Distribution System Operator (DSO) in the Republic of Ireland. ESB Networks had previously operated as a ring-fenced division of ESB. The new company is a wholly-owned subsidiary of ESB and is subject to corporate governance oversight by the Board of ESB, but will operate independently of ESB in relation to its DSO functions.

The establishment of ESB Networks Limited is in compliance with the 2003 EU Energy Directive which is reflected in Irish law by Statutory Instrument No. 280 of 2008. The new arrangements are intended to further enhance the confidence of the market and all industry players in the ability of the DSO to act independently when making decisions in relation to the operation, maintenance and development of the distribution network.

How much have Networks' prices declined since 2000?



ESB Network's prices and costs are reducing by up to 20% in real terms over the course of this decade



*Distribution Use of System Income

€6 billion in Network investment has delivered one of the most robust electricity systems in the world

The Board of ESB Networks Limited includes two external Directors: Gina Quinn (CEO, Dublin Chamber of Commerce) and Des Geraghty (Chairman of Affordable Homes Partnership and former MEP). The arrangements will be subject to ongoing Regulatory oversight by the CER.

2008 was the third year in the current Regulatory Price Control determination, covering the period 2006 to 2010. This determination was finalised in 2005, following an in-depth review by the CER of the planned investment and expenditure by ESB Networks over those years.

The review resulted in a substantial reduction in the allowed revenues of the business over the five year period, with a consequent impact on profits and cash flow. In response, the business implemented a significant number of performance improvement plans and is actively developing and implementing further initiatives. These include agreements reached with staff around greater organisational flexibility and future reductions in numbers employed.

There has been a significant reduction, in real terms, in the unit charges for the use of the Distribution network since the start of the decade. By 2010, prices will have fallen by up to 20% in real terms, reflecting a similar reduction in operating costs per unit. This price reduction is reflected in the tariffs for all electricity customers and is being achieved despite an investment programme of €6 billion over the same period.

The business will engage with the CER during 2009, in respect of the next Regulatory Price Control period, covering the years 2011 to 2015. The outcome of this engagement will determine the customer charges for those years, as well as the level of investment in the networks.

The current economic conditions will have a significant impact on the business, with reduced demand for electricity and lower volumes of new customer connections. In response, the business is actively reviewing its cost base, to ensure that all expenditure is efficiently and necessarily incurred.

In addition, and in order to sustain employment within Ireland, ESB Networks has launched a number of training initiatives, including the temporary recruitment of up to 400 apprentice electricians from FÁS, to enable them to complete their apprenticeships.

Customer Service Delivery

During 2008 the five year customer service improvement plan (2006 – 2010) provided a clear focus for the business. Having connected unprecedented numbers of new customers in 2006 and 2007, another 63,099 new connections were completed in 2008 and customer charter defaults were at an all time low.

The level of service to customers was maintained and enhanced, with improved performance delivery for electricity suppliers in the all-island Single Electricity Market (SEM). Our customer satisfaction survey returned a 74% positive response, achieving the annual target. The Networks National Call Centre performance is now world class and this achievement is acknowledged internationally.

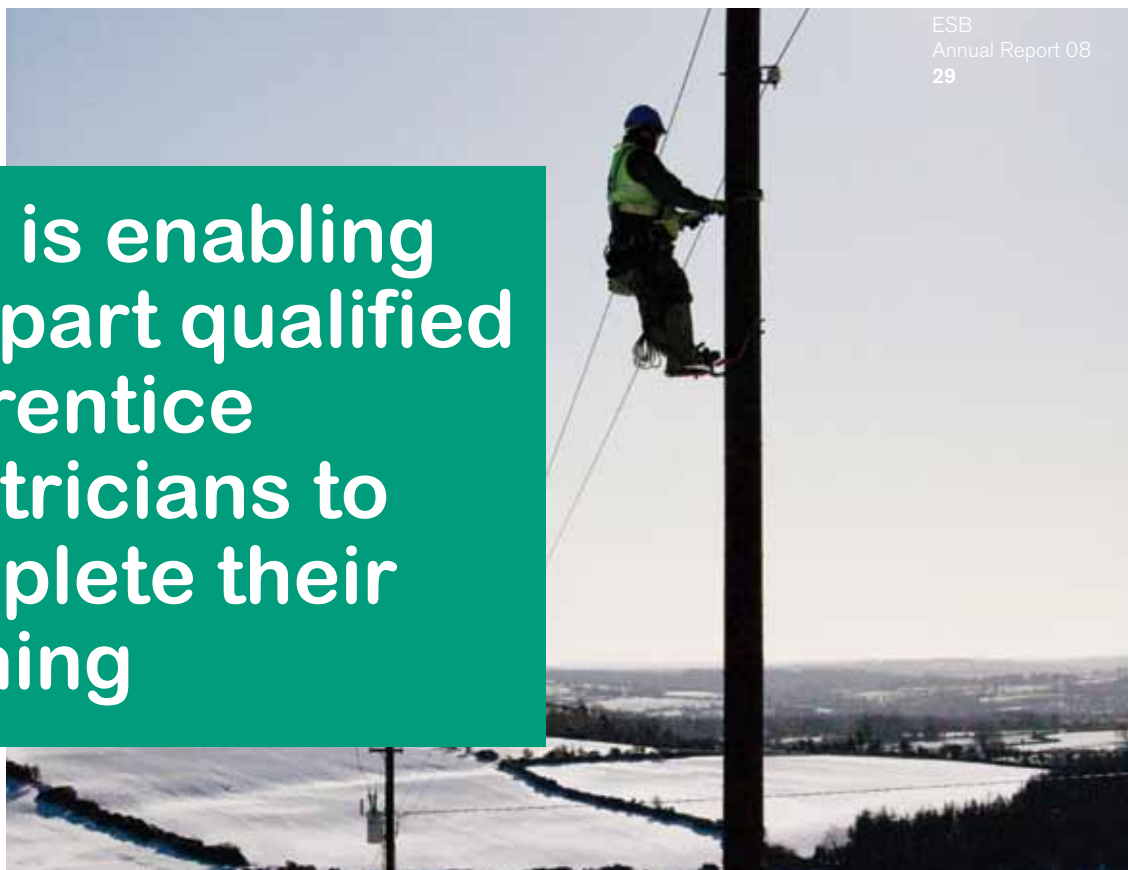
Significant customer service improvements were made in the areas of customer communication, relationships with key customer representative groups and continuity of supply performance through the use of live line working and mobile generation. Further service improvements will be implemented in 2009.

Health and Safety

The ESB Networks business is committed to having a healthy and safe working environment for staff, contractors, customers and the general public. Health and safety is a core value and an integral part of the business.

Through working with staff, safety committees and safety representatives during 2008, good progress was made in focusing on the important area of safe behaviours and team-based safety.

ESB is enabling 400 part qualified apprentice electricians to complete their training



In the area of public safety a Code of Practice was published jointly with the Health & Safety Authority on “*Avoiding Danger while working near Overhead Electricity Lines*”. This is an important step forward in construction site safety.

During 2008, ESB Networks Safety Organisation was successful in achieving a Certificate of Registration to the Occupational Health and Safety Assessment Series (OHSAS) 18001:2007 safety standard. The achievement of this standard will form the basis of our journey towards our goal of zero injuries.

Input into the Irish Economy

With annual expenditure of over €1 billion, mostly in Ireland, ESB Networks has a significant input to the Irish economy. Materials and services sourced in Ireland amounted to €350 million, in addition to the payment of approximately €50 million in rates to local authorities. The business directly employs around 3,600 employees and provides work for over 1,000 independent contractors, who are involved in the construction and maintenance of networks and other operational programmes nationwide.

As described earlier, in 2009 the business will undertake a number of employment and training initiatives relating to the recruitment of graduate engineers and new apprentices, and enable FÁS-sponsored apprentice electricians to complete their qualification.

The Future

Looking forward to 2009 and beyond, key issues include:

- ★ Safety. The business is committed to safety as a primary value and this will continue in 2009 and future years;
- ★ Financial viability. Despite the current economic conditions, a healthy financial position must be maintained in order to meet the investment, customer service and safety challenges facing the business;
- ★ Sustainable Networks. During 2009, ESB Networks will continue the implementation of initiatives including the Smart Metering project, Smart Network initiatives and the connection of additional wind generation to the system;
- ★ Infrastructure investment. The upgrading and extension of the existing electricity infrastructure will continue in 2009. This will be of benefit to all electricity customers, as well as facilitating economic activity throughout the country;
- ★ Customer service. The delivery of excellent service to customers and the achievement of challenging customer service targets remain key objectives of the business in 2009; and
- ★ The achievement of the current regulatory targets and the preparation for the next Regulatory Price Control engagement are key strategic objectives of the business.