

Consultation on October 2012 to September 2017 Revenues for Bord Gáis Networks

Introduction

ESB welcomes the opportunity to respond to both the distribution revenue (CER/12/057) and transmission revenue (CER/12/058) consultations.

The continued financial crisis in the Euro zone and wider financial markets has significantly affected the availability of finance and the cost of that finance. Utility companies, whether in the gas, electricity or water sectors nevertheless require access to capital in order to proceed with necessary infrastructure projects and the provision of required services for their customers.

Utility companies' credit ratings have been downgraded by association with the sovereign's credit status. Utility companies in Ireland are competing for scarce finance with utilities that have stronger profiles in other jurisdictions. A strong WACC will provide investors with a degree of certainty that over time the utility will be in a position to generate sufficient revenue to cover their investments.

WACC Range and Trigger Mechanism

ESB considers that CER's proposals, for the introduction of a trigger mechanism to adjust WACC within a pre-defined range, are sensible. The trigger mechanism will allow for upward adjustment of the cost of capital if market rates increase, or downward adjustment should rates fall, enabling the associated benefits to be shared with consumers.

ESB welcomes CER's proposal for an annual re-assessment of the pre-defined benchmark, to determine the cost of capital and associated revenue profile for the remainder of the price control period. However, should Irish Government yields rise significantly, towards a level of +3.75% above the rates underpinning the draft determination and as such towards the upper bound of the pre-defined WACC range, the WACC range may require to be extended or an alternative approach considered.

Overall, ESB considers that the approach proposed by CER for Bord Gáis Networks (BGN) to finance its activities as prudent in the current economic conditions.

Procedure for Additional Funding / Revenue Allowance

ESB welcomes CER's proposal for the drafting by BGN of a procedure for application of additional funding / revenue allowances for specific items. This is a progressive development which acknowledges that exceptional items or projects may reasonably be expected to arise during the 5-year period of the Price Control which are additional to those projects identified and approved at the time of the determination.

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An example of this may be the correction of a significant type fault affecting a large population of plant or the connection of additional network which could require significant expenditure. It would be prudent for the regulatory authorities to allow early realisation of benefits in these areas outside of the strict timeframe of the price control.