

Commission for  
Energy Regulation

# Strategic Plan 2014 - 2018



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

Regulating Water, Energy  
& Safety in the Public  
Interest

## Executive Summary

The Commission for Energy Regulation's strategic plan for the period 2014 – 2018 outlines the Commission's goals for this five year period as well as high level strategies and actions to achieve these goals. The Commission's aim is to strike a balance between all of these goals to ensure the public interest is protected, overall. The Commission will also be guided by government policy objectives and international commitments such as renewable energy targets.

The Commission has set the following strategic goals, in no order of preference:

**Goal 1** - *To ensure that "energy is supplied safely"*

*A world class public safety record*

Underneath this there are 5 strategies outlined in the areas of compliance, investigation & enforcement, continuous improvement, safety promotion & public awareness, and external engagement.

**Goal 2** - *To ensure that "the lights stay on"*

*Secure electricity supplies in a stable, competitive wholesale market*

Underneath this there are 5 strategies outlined in areas of generator adequacy, networks, interconnection, power system resilience and emergency planning.

**Goal 3** - *To ensure that "the gas continues to flow"*

*Secure natural gas supplies with improved diversity of sources*

Underneath this there are 3 strategies outlined in the areas of gas market structures, gas system resilience and gas networks.

**Goal 4** - *To ensure "a reliable supply of clean water and efficient treatment of waste water"*

*Secure, robust water supplies and waste water disposal*

Underneath this there are 3 strategies outlined in the areas of the structure of the regulatory framework, the system for charges for water customers and efficient investment.

**Goal 5** - *To ensure that "the prices charged are fair and reasonable"*

*Fully competitive wholesale and retail markets and well-regulated networks, delivering fair and efficient prices to customers.*

Underneath this there are 4 strategies outlined in the areas of wholesale markets, competition in markets & competitive prices, incentivising monopolies and innovation & consumer welfare.

**Goal 6** - *To ensure "regulation is best international practice"*

*Living up to our Values*

Underneath this there are 4 strategies outlined in the areas of values and behaviours, human resource management, integrated business planning and stakeholder engagement.

## **Introduction**

### ***Purpose of this Document***

The Commission for Energy Regulation (“the Commission”) is Ireland's independent energy and water regulator. This document sets out Commission’s draft Strategic Plan for the years 2014 to 2018. It sets out our proposed new vision, mission and strategic goals for the period, taking account of recent and expected relevant developments and, of course, our powers and functions. The plan is prepared and will be reviewed, as necessary, to ensure it continues to meet the applicable legislative requirements and best practice guidelines.

We now invite public comment on this draft Strategic Plan from interested stakeholders by Friday 30<sup>th</sup> May 2014.

Taking account of comments received, we plan to issue a finalised version of the Commission’s new Strategic Plan in June, 2014.

Comments, preferably in electronic format, should be sent to Gary Martin at [gmartin@cer.ie](mailto:gmartin@cer.ie).

### ***Background to the Commission for Energy Regulation***

The Commission was established in 1999. Since then its powers and functions have expanded and it now has a wide range of economic, customer protection and safety responsibilities in energy. The Commission is also preparing for its new role as the economic regulator of the Irish public water and wastewater sector.

A context to our work is provided in the next section of this document, while below we provide a brief summary of our diverse roles across energy and water.

## **Economic Regulation**

### **Energy**

Our aim is to protect the interests of energy customers, maintain security of supply, and to promote competition covering the generation and supply of electricity and supply of natural gas. As part of this role, the Commission jointly regulates the all-island wholesale Single Electricity Market (SEM) with its counterpart in Northern Ireland, the Utility Regulator. The SEM is governed by a decision-making body known as the SEM Committee, consisting of the CER, the Utility Regulator and an independent member

### **Water**

The Commission has recently assumed the role of economic regulator for the Irish water and wastewater sector, covering the services provided by Irish Water. Our primary aim is to protect the interests of customers of Irish Water. This role will focus on water and wastewater charges and customer protection.

### Customer Complaints

The Commission has an important related function in customer protection by resolving complaints that customers have with energy companies through its *Customer Care* team. This will expand to deal with Irish Water customers, in line with legislation.

### **Energy Safety Regulation**

In energy safety, the core focus of the Commission is to protect lives across a range of areas in the energy sector. This includes safety regulation of electrical contractors and gas installers (covering both natural gas and Liquefied Petroleum Gas (LPG)). In addition, the CER is the safety regulator of the downstream natural gas industry (covering storage, transportation and supply) and LPG piped distribution systems. It is also safety regulator of upstream petroleum safety extraction and exploration activities; this includes oil and gas activity both onshore and offshore.

## **Context**

### ***Economic Regulator for Energy***

The Commission for Electricity Regulation was established in 1999 as economic regulator of the Irish electricity sector. Like much of Europe, the sector was characterised by a single, dominant electricity company, a lack of customer choice, a lack of real competitive forces, a lack of significant investment in energy infrastructure and high growth in demand for reliable and cost-competitive energy supplies. In 2002, the Commission for Energy Regulation, as it was then renamed, assumed responsibility for a gas sector which exhibited many of the same characteristics.

Across Europe there was a drive for a single energy market to bring secure, competitively priced energy supplies to all customers. This has been underpinned by three packages of European legislation. Allied to this have been the climate change and energy security agendas under which Ireland must meet challenging renewables targets by 2020.

In the intervening 14 years the Commission has overseen major change right across the Irish energy sector. At the core of our economic regulation has been protection of the customer interest.

Key achievements include:

- an all-island, competitive wholesale electricity market;
- major investments in the electricity and gas networks;
- liberalisation of the electricity and gas retail markets;
- delivering circa 20% of electricity consumption from renewable energy (mainly wind).

Throughout this time there has been a strong consumer focus on energy prices. The prices which prevailed at the end of the nineties were unsustainable; reflecting a lack of significant investment in infrastructure. Security of supply - keeping the lights on and the gas flowing - were real issues. This necessitated significant investment and increased charges.

Ireland continues to be a price-taker on international fuel markets, particularly gas. Gas remains the primary fuel in the electricity market and sets the wholesale price for electricity ca. 55-60% of the time. A sustainable energy mix, with much of it centred on intermittent renewables, will require continued investments in networks, system services and generation. All of these have implications for end-user prices. We will continue to seek the balance in delivering competitive prices and secure supplies for current and future customers.

### ***Energy Safety Regulator***

In 2006, the Commission was transformed from a purely economic regulator to a combined safety and economic regulator. Since then the Commission regulates the safety of the downstream gas industry, the upstream oil & gas (exploration and extraction) industries and aspects of the electricity industry. This combination of economic and safety functions is not unique but it does bring its challenges, not least in maintaining a balance between the

protection of life and the obligations that that places on the energy sector, and the maintenance of competitive forces and competitively priced energy; both of which ultimately serve the public interest.

The Commission has overseen some major transformations in energy safety regulation. At its core is the protection of human life. Achievements include:

- Establishing the Gas Safety Framework – adoption of best practice goal-setting regime;
- Statutory oversight of Registered Electrical Contractors – launch of SafeElectric;
- Establishment and launch of Registered Gas Installer scheme;
- Establishment of Petroleum Safety Framework – covering Ireland’s on/offshore oil & gas exploration and extraction activity.

### ***Economic Regulator for Water***

The third major transformation in the Commission’s functions occurred in 2013 with the addition of economic regulation functions for the water and wastewater sector; a situation that is evolving. The Commission’s focus in water is on protecting the consumer interest in the setting of charges for water supply and wastewater treatment and disposal.

### ***Bringing it all together***

The previous version of the Commission’s Strategic Plan (2010-2014) focused on a range of issues. These included security of supply, prices, adapting to change from Europe and improving standards of safety. Progress has been achieved on all these fronts and yet many of these issues are just as relevant today; with the added focus on reliable water supplies and efficient waste water removal.

Modern society demands and expects safe secure energy and clean water, on a sustainable basis. Without both, modern economies do not function.

As an organisation, the CER is acutely aware of this. The advent of water regulation within our statutory remit provides us with the requirement, but also the opportunity, to take stock of our vision for these two vital resources and our role in meeting society’s needs and protecting society’s interest both now and over the long term. The Commission must adapt to meet the needs of changing national policy.

The water sector is transforming. The model of exchequer financed local authority provision, with no residential charges, is giving way to a model characterised by a single national water company and a self-financing model incorporating residential water charges.

In energy, national and external factors are driving radical change in energy markets. Customer protection and customer welfare are increasingly to the fore. The response to climate change continues to shape EU energy policy and national energy policy and is an important factor in designing regulatory processes. The drive for energy efficiency complements the evolution of Smart Grids; our own National Smart Metering Programme forms a significant plank in this smart future. At the same time, the electricity sector must adapt to high levels of renewable generation in terms of physical infrastructure, system operation and market dynamics. In gas, the security of supply of Ireland’s gas supplies is as much about diversity of supply at a national level as at is about delivering liquid,

interconnected markets at a European level. Across Europe the lessons from the Macondo Incident have resulted in a mandatory goal-based safety regime for offshore oil & gas activities.

All of these factors are driving change and the Commission must be ready to and meet the demands of this future whether as regulatory authority, national champion, competent authority or enforcement authority. Our key resource is our staff, and their skills and judgement. We recognise that as the demands on our organisation change, we must adapt.

The Commission subscribes to the principles of Better Regulation. This Plan sets out our mission/vision/values and our priorities for energy and water. It identifies the deliverables for which we are happy to be held to account, by the public.

## **Our Mission**

*Regulating Water, Energy and Safety in the Public Interest*

## **Our Vision**

The Vision of the Commission is as follows:

The short and long run interests of the public are protected by ensuring:

- energy is supplied safely;
- the lights stay on;
- the gas continues to flow;
- a reliable supply of clean water and efficient treatment of wastewater;
- consumer prices for energy and water are fair and reasonable; and
- regulation is to best international practice.

## **Our Values**

In fulfilling our mission and our statutory functions, it is vital that the CER develops and adheres to key values for the organisation so that all stakeholders, and particularly the public, trust us and have faith that we will serve them properly as an independent regulator.

In regulating we stress that:

- We are committed to public service – we will always act in the public interest
- We act with integrity in everything we do
- We are professional in our dealings with stakeholders
- We are accessible to stakeholders – we listen to what people have to say
- We are proportionate and objective – we take balanced decisions
- We are transparent – we are open to scrutiny and are committed to explaining our decisions
- We are accountable for our decisions and for the way we spend our resources
- We value and develop our staff – they are our chief resource

## **The Commission's Strategic Goals 2014 – 2018**

### *Goal 1 - To ensure that "energy is supplied safely"*

A world class public safety record

### *Goal 2 - To ensure that "the lights stay on"*

Secure electricity supplies in a stable, competitive wholesale market

### *Goal 3 - To ensure that "the gas continues to flow"*

Secure natural gas supplies with improved diversity of sources

### *Goal 4 - To ensure "a reliable supply of clean water and efficient treatment of waste water"*

Secure, robust water supplies and waste water disposal

### *Goal 5 - To ensure that "the prices charged are fair and reasonable"*

Fully competitive retail markets and well-regulated networks, delivering fair and efficient prices to customers

### *Goal 6 - To "regulate to best international practice"*

Living up to our Values

**Strategic Goal One** – *To ensure that “electricity and gas are supplied safely” – facilitating a world class public safety record.*

Safety regulation is now an established and significant aspect of the Commission’s legislative responsibilities. From 2014, the full suite of the Commission’s safety functions in the areas of electricity, natural gas, LPG, and oil & gas exploration and production will be established. Below, we set out our strategic objectives in this area.

Safety regulation is about protecting life, and property. Our strategies and objectives are designed to deliver this goal.

**ALARP**

*the core of much of our safety regulation is the concept of “As Low as Reasonably Practicable”, often shortened to ALARP. Undertakings regulated by CER are responsible for the safety of their operations. To operate they must demonstrate that the risk these operations pose to the safety of the public are ALARP; that they have taken all measures that are reasonably required to ensure this is the case. Demonstrating ALARP is a continuous process involving compliance assurance (including audit and inspection of undertakings), incident investigation, prosecution and enforcement where required, regular performance reporting and analysis of performance across a range of safety indicators and, ultimately, the feedback of all these learnings/evidences to help improve the overall safety regulation framework; a process of continuous improvement.*

**Measure(s) of Success**

- Continuous improvement in safety standards with ultimate goal of zero safety incidents
- World-class safety performance when benchmarked against other jurisdictions

## **Strategies to achieve Strategic Goal One**

The Commission has five strategies which are designed to achieve Strategic Goal one. Delivering on these interlinked strategies will over the course of this plan 2014 - 2018 help CER to deliver a world class public safety record in the areas that fall within our remit.

### **1.1 Compliance Assurance - *The ongoing monitoring of compliance of industry with the safety regulatory requirements***

The Petroleum Safety Framework, the Gas Safety Framework and the Electrical Safety regulatory documents encapsulate the policies, procedures and the standards for

compliance against which petroleum undertakings, LPG & natural gas undertakings, the GSSB<sup>1</sup>, the ESSBs<sup>2</sup>, gas installers and electrical contractors will be measured.

The Commission will actively monitor compliance, under a risk-based audit and inspection regime, against these to ensure that the public can be confident that the regulated entities are operating in compliance with regulatory requirements.

### **ACTIONS 1.1**

- 1.1.1** We will conduct ongoing audits and inspections of each regulated entity
- 1.1.2** We will impose independent verification on regulated petroleum entities.
- 1.1.3** We will use results of audits and inspections to inform ongoing improvements in the safety framework.

### **1.2 Enforcement –enforcing compliance with the regulatory systems when required.**

In order for any regulatory system to accomplish its intended purpose, it is critical that regulatory requirements are ultimately enforced by the Regulator when required, in line with statutory powers. This is especially important in the safety regulatory area, where enforcement demonstrates the intent of the regulator to act to secure safe outcomes and to protect lives.

Enforcement action may arise from a variety of sources including the result of audit or inspection or performance reporting. Significantly, it may also arise from the incident investigations, including the investigation of near-misses.

The Commission's powers in the event of non-compliance are varied (depending on scale of non-compliance), and include:

1. Issuing an *Prohibition Notice*;
2. Issuing an *Improvement Notice*;
3. *Prosecution* of people undertaking designated petroleum activities without a Safety Permit;
4. *Prosecution* of non-registered gas installers and non-registered electrical contractors who undertake Gas Works or Restricted Electrical Works.

### **ACTION 1.2**

We will investigate and take appropriate enforcement actions against petroleum, gas and electricity undertakings (including gas installers & electrical contractors) to ensure compliance with the gas and electricity safety regulatory systems where any non-compliance has been identified.

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<sup>1</sup> Gas Safety Supervisory Body - RGII (Register of Gas Installers of Ireland)

<sup>2</sup> Electricity Safety Supervisory Bodies – RECI (Register of Electrical Contractors of Ireland) and ECSSA (Electrical Contractors Safety & Standards Association)

**1.3 An evolving improving safety framework in line with technical and legislative developments Continuous improvements in safety - *Applying a continuous improvement philosophy to the safety regulatory systems***

The environment, technologies and best practices which inform the development of safety regulatory systems change over time. Therefore, regulatory policies and procedures also need to evolve; safety performance improvements can never be taken for granted. The Commission will continually review the regulatory system, with the intention of identifying and implementing on-going improvement.

An example of the changing environment and its impact on the regulatory framework is in the area of petroleum safety. Following the high profile incident at the Macondo Well in the Gulf of Mexico in 2010, the EU Commission has promoted a new Directive on the safety of offshore oil and gas operations. This applies across the EU and establishes minimum requirements for preventing major accidents in the offshore environment. The Petroleum Safety Framework will be reviewed and revised, as necessary, to ensure compliance with the Directive.

**ACTIONS 1.3**

- 1.3.1** We will require regular performance reporting by each regulated entity against an appropriate suite of safety performance indicators.
- 1.3.2** We will engage with the industry, through safety governance groups and through public consultation, to determine and implement specific improvements to the relevant safety framework.
- 1.3.3** We will with the Department review and implement the necessary changes to the Petroleum Safety Framework arising from Directive 2013/30/EU; we will initiate/implement changes to other aspects of our regulatory frameworks in line with relevant legislation during the plan 2014-2018.

**1.4 Safety Promotion & Public Awareness - *Undertaking comprehensive promotion and public awareness campaigns***

For the regulation of safety to be most effective, the general public must be made aware of gas and electricity safety issues, as they impact them. These issues may include their role in ensuring only registered installers or contractors carry out work on the electrical or gas installation in their home. It may also include their role in preventing safety incident; this is particularly relevant to the dangers of Carbon Monoxide. It is also important that the public understand the importance of their role as “the police on the ground” within the regulatory system (e.g. reporting gas leaks) and that the public have confidence in the regulatory systems in place; that are ultimately there to protect them.

**ACTIONS 1.4**

We will co-ordinate the delivery of promotion and public awareness campaigns which will aim to achieve the following outcomes:

- 1.4.1** Increased levels of general public awareness of gas and electrical safety issues;
- 1.4.2** Greater willingness among the general public to take preventative and positive actions with respect to energy safety;
- 1.4.3** Obtain higher levels of awareness of the Registered Gas Installer and Registered Electrical Contractor schemes; specifically raise awareness of the need to use a RGI or REC for Gas Works and Restricted Electrical Works respectively;
- 1.4.4** Identify and promote, in co-operation with other public bodies/agencies, public awareness on specific safety issues such as Carbon Monoxide;
- 1.4.5** Raise the level of general awareness of the Commission's role as the regulatory authority for energy safety matters in Ireland.

### **1.5 External Engagement – *Co-operating and working with other agencies to facilitate the discharge of respective safety regulatory functions***

The Commission's role as Safety Regulator is significantly different from its role as an Economic Regulator. Most notably, the safety functions of the Commission potentially overlap with or complement the functions of a diverse range of national agencies; these include the Health & Safety Authority, the planning authorities, the Environmental Protection Agency, and the Irish Coast Guard, amongst others. Effective inter-agency co-operation and working practices are necessary to ensure the regulatory function of each agency is discharged effectively and that the overall regulatory burden is minimised.

#### **ACTIONS 1.5**

- 1.5.1** We will co-operate and consult with relevant agencies and bodies whose functions complement or overlap with the Commission's safety functions; as necessary, we will underpin this commitment with Memoranda of Understanding and agreed working practices, which will be subject to review on a regular basis;
- 1.5.2** We will share supporting evidence and information with relevant agencies/bodies and stakeholders to assist them in the discharge of their own functions.
- 1.5.3** As a member of EUOAG, and in cooperation with other safety regulatory bodies across European and the world, CER shall work with its European colleagues to inform higher safety standards in Ireland and elsewhere.

## **Strategic Goal Two – To ensure that “the lights stay on” - Secure electricity supplies from production to consumption.**

The Commission has a key role in ensuring security and reliability of electricity supplies in a sustainable manner. The Commission monitors generator adequacy through oversight of Eirgrid and considers changes necessary to deliver security of supply standards. We recognise that demand side, storage and interconnection can also add to security of supply. A key consideration will be the sustainability of the mix of measures adopted; protecting security of supply for current and future generations. There is a strong overlap with Goal Five which covers markets for generation and demand side measures, including flexibility. Goal Two focuses on generator adequacy, network security and emergency planning.

### **Measure(s) of Success**

No major security of supply outages over period of plan

Support Eirgrid operation of the grid to minimise risk of blackouts.

Support delivery of adequate network capacity to ensure that electricity can be delivered cost effectively for all reasonable requests for demand

## **Strategies to achieve Goal Two**

The Commission has developed four strategies (outlined below) which are designed to achieve Goal Two. Along with market strategies under Goal 5, these strategies will tie together over the course of this plan 2010 - 2014 to deliver secure electricity supplies in a stable, competitive wholesale market, on a sustainable basis.

### **2.1 Infrastructure: Electricity Networks**

Network development is a key aspect in maintaining secure supplies and increasing the role of indigenous renewable energy in Ireland’s energy mix. Electricity networks are regulated as natural monopolies. The Commission must ensure that customers and network users receive value for money while the network owners and operators earn sufficient returns in order to make the necessary investments in the sustainable development and maintenance of the networks to meet increases in demand and renewable penetration. Development of the transmission network to support large scale renewable development across Ireland will be of importance. A key component in the delivery of this will be the 4th Price Review for transmission and distribution (for the period 2016 – 2020). Also, with the conclusion of Gate 3<sup>3</sup> the Commission will address the connection policy for generation on the system to ensure it is fit for purpose in balancing the requirements for priority access and secure operation on a sustainable basis.

### **ACTIONS 2.1**

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<sup>3</sup> Explain here

- 2.1.1** We will continue to work with the electricity network owners and operators to plan and implement the appropriate levels of network development to support security of supply, renewable development and a competitive electricity sector. We will ensure that network enhancement and development is carried out efficiently and that benefits are analysed against associated costs. We will use network price controls and regular monitoring to deliver this action.
- 2.1.2** We will continue to monitor the delivery of Gate 3 connections to ensure network connections support delivery of national renewable targets for 2020.
- 2.1.3** We will review connection policy with the aim of providing a fair opportunity for generation to receive offers of connection to the networks taking account of system needs, limitations and national policy.

## **2.2 Interconnection – *Future interconnection projects***

The Commission considers increased interconnection with Europe to be helpful in both improving security of electricity supplies and competitiveness of the electricity market. Over the course of this plan, interconnection will become a significant new feature of the Irish electricity system, opening up new competitive possibilities but also bringing challenges for system planning and operation. The Commission will seek to maximise the benefit to consumers of current interconnectors and seek to establish further interconnection options, but only proceed with further interconnection projects requiring consumer support, where a robust cost benefit analysis has been completed, in consultation with all relevant stakeholders including the government.

### **ACTIONS 2.2**

- 2.2.1** The Commission will seek to get maximum consumer benefit from existing interconnectors through efficient market design, under I-SEM project.
- 2.2.2** We will continue, in co-operation with the system operator and government, to examine the potential for future interconnectors to both France and Great Britain but only proceed with projects after completion of a robust cost benefit analysis.

## **2.3 Generator Adequacy /Power System Resilience/**

The Commission will review generator adequacy and other forms of capacity, eg. storage, demand side, interconnection, to ensure that the lights stay on. We will continue to encourage Eirgrid to undertake prudent operation of the electricity system. The advent of high levels of renewables penetration, increased levels of interconnections and the advent of new forms of common mode failure, resulting from the use of new technologies, has added complexity to the operation of the power system. We will work with the system

operator and network owner to seek to identify power system operation risks and mitigate those risks as necessary.

### **ACTION 2.3**

2.3.1 We will monitor generator adequacy and other forms of capacity to ensure security of supply standards are achieved

2.3.2 We will seek opportunities to encourage power system resilience through prudent system operation by the transmission and distribution system operators. This will be monitored on an annual basis.

### **2.4 Emergency Planning – *Policies to deal with emergency events***

The Commission is cognisant however that despite market mechanisms and stringent security of supply planning, security of supply events could occur due to a variety of reasons. Therefore robust emergency-related policy and plans should be in place to mitigate the impact of such events.

The emergency planning arrangements currently in place are for both electricity and gas, given the continuing reliance on gas supplies in the current generation mix. These emergency plans will continue to be monitored and updated.

### **ACTION 2.4**

We will work through the TFEP (Task Force on Emergency Procedures) group to identify, implement/update and monitor plans and protocols to minimise the effect of emergency events on electricity and gas customers.

**Strategic Goal Three – To ensure that “the gas continues to flow” – Secure natural gas supplies with improved diversity of sources.**

The Commission plays an important role in natural gas planning and security of supply. This is of key importance both to “standard” gas customers such as homes and businesses but also to the electricity industry, given that over 55% of Ireland’s power is now produced from natural gas (of which 95% is imported from UK). This goal is about enhancing structures to deliver security of supply in gas while acknowledging the increasing diversity of sources over the coming years.

**Measure (s) of success**

No major security of supply issues

Full implementation of European network codes in conjunction with UR and OFGEM

Improve system resilience through diversity of sources, facilitating storage and improving flexibility.

### **Strategies to achieve Goal Three**

The Commission has developed three strategies (outlined below) which are designed to achieve Goal three. These strategies are separate individual pieces which will tie together over the course of this plan 2014 - 2018 to deliver secure natural gas supplies.

#### **3.1 Gas Market Operational Structures**

Increasing market coupling and integration in gas, like in electricity, is a key mechanism by which Ireland can improve gas security of supply and competitiveness. This issue has now been addressed comprehensively at European level through the development of network codes. The Commission will seek to go beyond minimum requirements set out in the network codes and explore options for increasing integration across the two islands of Ireland and Great Britain. We will also consider interaction with the electricity market when developing network code implementation.

#### **ACTION 3.1**

We will work with the Northern Ireland Utility Regulator, the Energy Regulator in Great Britain and the natural gas industry to implement the European network codes which delivers improved gas security of supply and improved benefits for the market and customers.

#### **3.2 Gas System Resilience**

Gas supplies are now a key strategic service for the Irish economy given the number of residential customers who rely on gas heating, businesses who need reliable gas supplies and the prevalence of gas fired generators in the electricity market (albeit with secondary

fuel back-up). We will seek to improve the gas system resilience by facilitating, where practicable and safe, new sources of indigenous gas, sources from LNG and improved gas storage. In the event that Ireland is likely to become a gas exporter we will ensure that the necessary infrastructure is delivered in time to facilitate this. Gas export would improve gas security and competitiveness but will probably only occur if new sources of supply are found.

### **ACTIONS 3.2**

**3.2.1** We will continue to monitor Irish gas demand and analyse the impacts of various gas supply and availability scenarios to ensure that sufficient capacity is available to satisfy demand from all sources in the near term.

**3.2.2** Additionally we will examine possible sources of gas for the long term, including indigenous sources, LNG and increased gas storage.

### **3.3 Infrastructure: Gas Networks - *Implement new five year revenue strategy for gas networks (2017 – 2022)***

As in the electricity sector, the monopoly aspects of the natural gas sector such as networks are regulated by the Commission using a five year control mechanism.

### **ACTION 3.3**

We will carry out a full historical and forecast revenue review of gas networks to put in place the correct mechanism for the period 2017 - 2022. Full consultations will be carried out on proposed revenues, controls and models in 2016. The network reviews will be analysed in order to ensure that necessary and appropriate network development is planned and carried out efficiently.

## **Strategic Goal 4: To ensure a reliable supply of clean water and efficient disposal of wastewater**

The Commission has been given the responsibility of being the regulator for the provision of water and wastewater services. This is a period of major change in the Irish water sector, with a commercial semi-state company, Irish Water, being set-up to provide water services at a national level. Irish Water will replace the old system of having such services provided by 34 separate local authorities. The Commission will regulate Irish Water as a network monopoly to ensure that it is run as efficiently as possible while still providing a clean and safe water supply to all consumers. The changes will also see residential consumers being charged for water from October 2014, and the Commission will ensure that a fair and transparent system of charging is implemented. This is against a background of Irish water services needing significant new investments both to modernise an ageing network as well as to meet new EU standards on efficient disposal of wastewater. Our key challenge will be to keep costs at the efficient level while ensuring sustainable water production both now and in the future.

### **Measure (s) of success**

A credible regulatory framework to facilitate low cost funding from capital markets

All customers paying their water bills, and understanding their bills

Water and wastewater quality measure being improved, and increased compliance with EU Water Framework Directive

## **Strategies to achieve Goal Four**

The Commission has developed three strategies (outlined below) which are designed to achieve Goal three. These strategies are separate individual pieces which will tie together over the course of this plan 2014 - 2018 to deliver reliable supplies of clean water and efficient disposal of wastewater.

### **4.1 Establish Framework for the economic regulation of Irish Water**

Our aim will be to implement a coherent framework for the regulation of Irish Water. To this end, we will set-out a series of papers specifying how we intend to fulfil our statutory objectives in the water sector. This will specify the principles of how Irish Water is to be regulated. Our approach to water network regulation will draw on our experience in energy and international experience. This will involve developing a framework for measuring efficient operating costs, methods of benchmarking costs against other water companies, and a system of assessing the need for new investments, as well as ensuring any investments are made in an efficient manner. We will consider environmental and sustainability matters relating to national and EU requirements in all relevant aspects of regulating Irish Water, but we recognise the budgetary constraints on the company and government in early years of operation.

## **ACTIONS 4.1**

**4.1.1.** Use the statutory objectives given to us in legislation to give a clear and understandable framework for the regulation of Irish Water.

**4.1.2.** Work to build a system of network regulation, using best principles both from our own experience of energy networks as well as water regulation in other jurisdictions.

## **4.2 System of Charges for Water Customers**

We will work to ensure efficiencies are made that will minimise the cost of water and wastewater services. We will do this by requiring Irish Water to make necessary reductions in cost. The Commission will do this using data and analysis, and identifying a clear time path over which efficiencies are made.

We will develop methods for charging to water service customers that are fair and transparent. They will set out the relative cost of water supply and wastewater treatment. The new water meters will allow us to set charges related to the volume of water used. For those without meters, we will develop a set of assessed charges. The CER will ensure that all bills are clear and understandable, and will consult with all stakeholders, including consumer groups in doing so.

The Commission will seek a high level of customer service by Irish Water, as a monopoly provider, which is responsive to their customer needs. To facilitate this we will pursue an independent customer complaints function that will deal with customer complaints and address grievances. At the same time an effective suite of customer protection measures will be required to ensure the relationship between Irish Water and its customers is effectively governed with a view to improving service standards.

## **ACTIONS 4.2**

**4.2.1.** Work to ensure that consumer costs are as low as is consistent with ensuring clean and stable supplies of water and treatment of wastewater.

**4.2.2.** Develop and maintain a system of charging that is fair and transparent to all consumers.

**4.2.3.** We will work with Irish Water to ensure that, as a monopoly provider, it strives to achieve and improve a high level of customer service that responds to customer needs and desires.

## **4.3 Efficient Investment**

The bringing together of 34 Local Authorities will allow us to seek reductions in operating costs and facilitate the more efficient planning of the water network. This will be achieved by assessing water needs across the country. The CER will work with Irish Water to ensure a

system is in place that minimises the necessary level of investment and optimises the network.

It is clear that the Irish water network is relatively old, and that it must meet the demographic, economic and environmental needs of the Irish people now and in the future. We recognise that significant investment will be needed to upgrade it, to reduce leaks, and to ensure that consumers see year-on-year increases in the quality of water and wastewater services they currently receive. Also, Ireland faces challenging EU targets for wastewater disposal by 2021 which will require significant investments if they are to be met. We will work with both Irish Water and the Environmental Protection Agency (EPA) when determining how these targets will be achieved.

Nevertheless, while investments will be needed, it is vital to ensure that they are carried out in an efficient manner which minimises consumer costs. We will regulate Irish Water to ensure that it has incentives to choose the most efficient and lowest-cost investments that are needed to maintain and improve the network. The Commission recognises the key role that asset management will play in this regard.

#### **ACTIONS 4.3**

**4.3.1** Work with Irish Water to develop a system for assessing investment needs.

**4.3.2** Ensure that sufficient investment is made to improve the network and meet the requirements of the EU Water Framework Directive.

**4.3.3** Ensure that any investments are carried out efficiently.

**Strategic Goal Five - To ensure that “the prices charged are fair and reasonable” - Fully competitive retail and wholesale markets delivering fair prices to customers.**

A key purpose of economic regulation is to ensure that energy and water prices are at a competitive and efficient level. Consumers need to be protected against monopolists, or any firms with market power, charging excessive prices. The CER regulates the energy and water sectors which are vital services for all consumers. The CER sees it as vital that these services are provided at the lowest possible efficient cost to consumers, particularly given the general increase in fuel costs in the last 10 years and the fact that consumers have not previously been charged for water. Strategic Goal Four addresses water charges, while Goals Two and Three address charges for electricity and gas networks. This Goal focuses on energy retail competition and electricity wholesale competition.

The CER needs to protect both the current and future interests of consumers. Energy retail markets are expected to be fully deregulated in 2014; with the removal of remaining end-user price controls in the gas residential market. Nevertheless, the CER must ensure that consumers continue to benefit from competition, including exercising choice by switching, and can access competitive prices.

The Commission, together with our UR colleagues and the SEM Committee, are working to develop the integrated Single Electricity Market (I-SEM) to ensure that it complies with European network code requirements, delivers secure supplies and efficiently uses the interconnectors. This will be delivered through a stable competitive wholesale market that encourages efficient investment in competitive technologies that may include flexible conventional generation, renewable generation (with government support where required), demand side participation, storage and increased interconnection. The necessary level of investment is required to make sure prices are as low as possible in the future as well as today.

**Strategic Objectives**

| <b>Measure (s) of success</b>  |
|--|
| Active, unregulated, competition in all electricity and gas markets, allied to high consumer switching rates in retail markets |
| Ensure compliance with European target model by end of 2016  |
| Continued efficiency improvements in regulated networks, as well as diminishing market power in any other markets              |
| On-going roll-out of new meters under the NSMP, as well as new demand-side measures  |
| Reducing levels of customer complaints   |

**Strategies to achieve Goal Five**

The Commission has developed four strategies which are designed to achieve Strategic Goal Five. These strategies tie together over the course of this Strategic Plan to facilitate competitive prices and an enhanced customer experience.

### **2.1 Wholesale Electricity: The Single Electricity Market**

The Single Electricity Market (SEM) has twin objectives of delivering security of supply and efficient prices through an efficient, wholesale market structure. The Commission through its participation in the SEM Committee aims to ensure that the SEM provides a more efficient, competitive and customer focussed electricity sector in Ireland. This includes encouraging increased flexibility of supplies in the market to efficiently and reliably accommodate the high penetration levels of renewables that are expected on the system.

The SEM Committee (SEMC) is the decision-making body which governs the exercise of regulatory functions on SEM matters. The SEMC is composed of members of CER, NIAUR and an independent Committee Member.

The SEM was delivered through a spirit of partnership with the two Regulatory Authorities working with the Governments and the electricity industry north and south. Continued progress will also be achieved by working with our SEM partners and maintaining regulatory certainty in rules and procedures underpinning the SEM.

#### **ACTIONS 5.1**

**5.1.1** Through the SEMC we will ensure that the I-SEM is implemented to comply with European network code requirements by the end of 2016 bringing benefits of more integrated markets to customers

**5.1.2** The I-SEM will build on the experience of the SEM and include effective monitoring and implementation of rules, including market power mitigation measures as required.

**5.1.3** We will seek to develop a wholesale market that will equally treat flexible conventional generation, demand side participation, storage, and interconnection while delivering government renewable energy targets. We will address interaction of electricity and gas markets as part of the wholesale market design.

**5.1.4** We will work with ACER and the CEER to seek common European solutions to the challenges our market faces, where practicable.

**5.1.5** The Commission will seek to minimise curtailment of renewable generators by increasing incentives for conventional generators to be more flexible, by stimulating demand side participation and by efficient use of interconnectors. The SEMC/CER, under DS3, will complete a review of ancillary services to encourage flexible generation and demand side resources and the Commission will seek to ensure that any new ancillary service arrangements are monitored and reviewed regularly to ensure efficient delivery of flexible generator and/or demand side operation.

### **5.2 Competition in Markets and Competitive Prices**

We will promote competition in Retail & Wholesale markets to ensure prices are at the competitive level.

Effective competition is generally regarded as superior to regulation in achieving efficient prices. Competitive markets should bring prices to the efficient level by each firm competing on the basis of price & quality of service , thus empowering consumers and giving them choice.

## **ACTIONS 5.2**

**5.2.1** We will ensure that retail energy markets have a competitive structure, as well as through the SEM Committee promoting competition at a wholesale level. We shall continue to monitor the market to ensure firms are charging competitive prices and set market rules which facilitate competitive behaviour both at the wholesale and the retail level. If markets are not achieving competitive outcomes, we will intervene using our powers to ensure that consumers are protected and, ideally, competition is restored.

**5.2.2** The Commission will revise and keep under review its retail monitoring framework as necessary to support our role in ensuring effective competition and customer choice.

**5.2.3** Competitive markets need well-informed and empowered consumers, and the CER will act to ensure that consumers are protected against any unfair practices while also having information that will enable them to switch. It will do this by ensuring a high level of information in the market, and requiring all market participants to offer clear and transparent pricing offers. It will also ensure that all consumers have the ability to switch suppliers easily, thus further promoting competition and choice.

**5.2.4** The Commission will investigate any barriers of switching, what steps might be available to stimulate or encourage switching activity among those who have never switched.

**5.2.5** The forthcoming roll-out of Smart energy meters will change the way in which consumers purchase energy. The Commission will act to ensure that this roll-out stimulates competition, by ensuring a range of offerings are available to customers that enhance choice and allow informed comparison of different offers.

## **5.3 Incentivising Monopolies**

Networks are natural monopolies, and constitute a large part of the cost of each service, particularly for water. While the CER will encourage contestability where possible in energy network development, most of the networks will be subject to ongoing price regulation designed to ensure network prices are at the competitive level.

## **ACTIONS 5.3**

**5.3.1** We will ensure networks are benchmarked internationally to drive efficiency gains.

**5.3.2** We will place tough incentives on monopolies to drive improvements in their performance without sacrificing service quality.

## **5.4 Innovation & Consumer Welfare**

A key to ensuring competitive markets and fair prices to consumers is ensuring that entry barriers are as low as possible, and that innovative new products and services are encouraged. Innovation can lead to major reductions in consumer costs, as witnessed in areas such as telecommunications and airlines. The CER will act to ensure entry barriers are kept as low as possible, and that new products and services can be offered for the benefit of consumers.

We will promote innovation and new products that can reduce prices and enhance consumer welfare.

A key focus for the CER is the rollout of new digital meters to residential and small business customers in Ireland. This is being managed under the National Smart Metering Programme (NSMP). This will allow existing and new entrants to use the new metering system to offer innovative new products which can benefit consumers, and further stimulate competition by spurring their competitors to react.

#### **ACTIONS 5.4**

**5.4.1** We will ensure that new energy meters under the NSMP and the IT system backing them up permit a wide range of products and solutions to be used by a large number of entrants.

**5.4.2** We will generally act to limit barriers to new entry in all markets. We will focus on ensuring customers can switch to new providers, and by limiting any artificially high barriers to entering wholesale or retail markets.

**5.4.3** We will where appropriate provide incentives to stimulate efficient innovation, both through network reviews as well as increased emphasis on areas such as demand-side measures. This process of continual innovation should provide a wider range of choice for consumers as well as driving down prices of existing services.

## **Strategic Goal Six - To ensure Regulation is Best International Practice – Living up to our Values.**

The Commission has a set of values which inform its work.

Through our Values we commit to:

- act in the public interest
- act with integrity
- deal professionally with our stakeholders
- listen to what people have to say
- be proportionate and objective; take balanced decisions
- transparency
- be accountable for our decisions and for the way we spend our resources
- value and develop our staff – they are our chief resource

Values, and the behaviours they drive, define the organisation and what the public can expect of it. They represent the standards in public office we set for ourselves. If the values are relevant, and we live up to them, we can deliver a regulatory service that meets best international practice, which will support the organisation in the delivery of Strategic Goals One to Five.

### **Measures of success**

An organisation whose decision making demonstrates best regulatory practice being followed

Leaders who foster an organisational culture of commitment to living up to its values

Committed professional staff equipped with the necessary skills, knowledge, and experience required to do their job

## **Strategies to achieve Goal Six**

The Commission has developed five strategies which are designed to achieve Goal Six. These strategies over the course of this plan 2014 - 2018 will deliver the goal of providing a regulatory service to best international practice.

### **6.1 Values**

The Commission's role has changed significantly since its foundation. The Commission is committed to ensuring our values are relevant to the role we fulfil today and into the future, and that we live up to those values as we deliver the corporate functions, operational work and projects of CER which are key to pursuit of our goals.

#### **ACTION 6.1**

We will undertake a review of how we live up to our values as we undertake the delivery of all our legislative responsibilities.

### **6.2 Human Resource Management**

The achievement of the goals set out in this strategic plan and the significant corporate services within CER which facilitate this, relies on the knowledge and expertise of our staff and their judgement in developing policies, recommendations and decisions. The Commission is committed to developing and supporting our staff. We will use human resource planning to identify and balance the training and development needs of the organisation and our staff. We will ensure our Performance Management & Development system is in line with best practice for the public sector and is aligned with work plan delivery. An integral part of this will include a commitment to align and develop skills and resources with our business plan priorities.

Given the specialised and continually developing nature of the water and energy sectors, considerable time and effort must be spent training and developing staff and ensuring that information is captured and imparted freely across the organisation. Knowledge management, retention and transfer within the Commission is a high priority.

#### **ACTIONS 6.2**

- 1.5.4** We will ensure our Resource Planning system identifies the skills and competency requirements of the organisation and aligns and develops this to our staff.
- 1.5.5** We will continue to implement a best practice Performance Management & Development system.
- 1.5.6** We will implement a knowledge management system appropriate to the evolving needs of the organisation.
- 1.5.7** Our training and development programme, our resource planning activities and our business planning activities will be aligned.

#### **6.3 Integrated Business Planning**

This Strategic Plan establishes the goals and objectives for the organisation. We will develop and implement an integrated business planning process. This will focus on management processes which provide a clear link between our strategy and our annual and quarterly work planning and reporting process. This will operate alongside our resource planning/performance management processes.

#### **ACTION 6.3**

We will implement an integrated business planning process which will provide a clear link between individual objectives and the Commission's goals.

#### **6.4 Regulatory Practice**

The Commission, in this strategic plan, commits to regulate to best international practice. Our active membership of various international regulatory fora such as ACER<sup>4</sup>, CEER<sup>5</sup> and EUOAG<sup>6</sup>, as well as our engagement with international agencies/regulators, allows us to build our knowledge base on best practice and share our own experience of regulatory

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<sup>4</sup> Agency for the Cooperation of Energy Regulators

<sup>5</sup> Council of European Energy Regulators

<sup>6</sup> EU Offshore Authorities Group

practice. Domestically, there is a drive to deliver best practice in the public sector. The Government Statement on Economic Regulation and ongoing initiatives in the area of public sector reform (Public Sector Reform Plan 2014-2016) are relevant in this regard. The Commission commits to active involvement in these areas to facilitate delivery of best regulatory practice.

#### **ACTION 6.4**

We will subject our regulatory practice to regular review and document and implement best regulatory practice.

#### **6.5 Stakeholder Engagement**

The Commission's expanded remit across energy and water and between economic and safety regulation necessarily puts our stakeholders at the centre of our strategy. The Irish citizen is our ultimate stakeholder and this is borne out in the Commission's clear public interest remit across our various legislative functions.

This Strategic Plan identifies and recognises the critical role energy and water plays in the lives of citizens, commerce and industry. It acknowledges their need for access to safe, secure, reliable and competitively priced energy and water. We have identified the increasingly integrated nature of energy networks and markets (the SEM and our relationship with UR is a prime example), and the increasing drive from Europe towards the single energy market and international co-operation on safety matters.

Aspects of the Commission's work is directly relevant to environmental policy (e.g. PSO, Gate 3). Previous strategic plans included a specific environmental goal. Increasingly the focus is on co-operation with the relevant environment agency; notably the EPA. This is reflected in the MoU between both agencies (subject to ongoing review). While the Commission will continue to fulfil our statutory functions as they relate to the environment, we recognise the increasingly integrated nature of environmental and energy/water regulation; both in terms of safety and economic regulation.

The Commission is also committed to working with our EU institutions and relevant agencies to provide constructive input to EU policy and legislative developments with a specific aim to ensure the interests of the Irish consumer are protected.

We will pursue joint initiatives with relevant agencies in the field of energy regulation and water regulation in this spirit. As appropriate, we will agree a joint programme of work of realistic and achievable outcomes which are of mutual benefit. We will adopt a set of practical oversight and working arrangements to help us deliver on our commitments.

Finally, we are committed to working with all our stakeholders in a spirit of open dialogue, trust and mutual respect.

#### **ACTIONS 6.5**

The Commission will continue to pursue a structured, co-operative and mutually beneficial engagement with a broad range of statutory and non-statutory stakeholders, on a formal basis as necessary, across three broad groupings:

**6.5.1** National

**6.5.2** North/South (All-Island)

**6.5.3** International

## **Concluding Remarks**

The Commission must be equipped to meet the challenges in the energy and water sectors over the period of this strategic plan 2014 – 2018 and beyond. The pace of dramatic change is likely to continue in the energy sector. Decisions on smart metering, developments in retail competition, changes to wholesale markets, the evolution of energy safety regulation are set to alter the landscape for all players and stakeholders. The water sector will witness a period of profound change and challenge. Throughout all this the customer interest, whether in terms of protecting life or ensuring customer welfare is protected, will be to the forefront of the Commission's thinking.

The Commission will strive to achieve our Vision to protect the interests of the public, and that all consumers use energy and water in a safe and informed manner. We must do this in line with our Mission and in keeping with our Values.

This strategic plan is the high level description of how this will be achieved between 2014 and 2018.