

Bord Gáis Éireann

*Response to CER*

*Strategic Plan 2014 – 2018*

# ***Response to CER Strategic Plan***

## **Introduction**

Bord Gáis Éireann (BGE) welcomes the opportunity to respond to the consultation paper issued by the Commission for Energy Regulation (CER) on the Draft Strategic Plan 2014 – 2018. BGE, responding jointly with Irish Water (IW) and Bord Gáis Networks (BGN), broadly supports the six goals the CER has set for the forthcoming five year period. We have limited our comments to some of the key issues we see facing the water and energy sectors in Ireland in the coming period and hope that the comments below will enhance the effectiveness of the Strategic Plan from the point of view of the renewal of water and wastewater services, energy safety and security of supply.

## **Summary**

BGE recognises the challenges faced by the CER in the coming period in addressing national issues in the Irish water and energy sectors. Further to the actions outlined in the Draft Strategic Plan, BGE urges the CER to;

### **In relation to Water**

- Ensure that the stable and predictable regulatory framework which underpins the energy sector is applied consistently in the water sector;
- Work with IW to identify an achievable and pragmatic path to efficiency, taking into account the legacy of under-investment in the sector and the resulting compliance deficit;
- Ensure that the difference in the maturity and life cycle stages of the IW utility structures being proposed for benchmarking is given due consideration in the benchmarking process

### **In relation to Energy and the Gas Networks**

- Strongly support the Project of Common Interest (PCI) to twin the South West of Scotland (SWOS) pipeline;
- Maximise use of existing gas infrastructure investments and support oil to gas conversions via the Connections Policy that will lead to lower transportation tariffs;
- Implement future EU policy in a manner which does not lead to increased uncertainty and volatility in revenues.
- Ensure implementation of ENTSOG codes in a pragmatic, end user focussed manner with an overarching principle to minimise market uncertainty and tariff volatility;
- Assess the impact of modifications to the electricity market (iSEM) on the economics of the critical gas infrastructure; and
- Ensure that gas transportation is priced to properly reflect the economics of providing same (e.g. that short term products properly reflect their economic cost and value).

## **Mission**

The outline mission statement of the CER Strategic Plan is “Regulating Water, Energy and Safety in the Public Interest”. BGE suggest amending the high level mission statement to “Regulating Water, Energy and Energy Safety in the Public Interest”, to provide clarity on the specific safety role in relation to energy.

### **Goal 1 - To ensure that “electricity and gas are supplied safely”**

*A world class public safety record*

BGE commends the CER’s strategy in relation to gas safety and the supporting actions to achieve these goals. BGE agrees with the CER’s view that the approach to safety regulation must be different to that employed in the area of economic regulation. We also agree that there is a critical need for the CER to work with other agencies cooperatively to discharge joint functions effectively, so that the overall regulatory burden is minimised. BGE and BGN look forward to working with the CER to meet our shared goals in this area.

With regard to *1.4 - Safety Promotion & Public Awareness - Undertaking comprehensive promotion and public awareness campaigns*, the CER states that “it is also important that the public understand the importance of their role [i.e. general public’s role] as “the police on the ground” within the regulatory system (e.g. reporting gas leaks)”. The term “police on the ground” may be incorrectly construed to contain a degree of enforcement. We suggest that terminology like “societal role” or “civic duty” would be more suitable. In that regard, BGN established a Revenue Protection Unit in 2013. One of this unit’s primary objectives is to also ensure safety is maintained on our network. The unit is actively identifying, investigating and pursuing cases of unlawful interference with BGN’s equipment. This work will be ongoing over the period of this strategic plan. A public awareness campaign is scheduled to begin in July 2014 to ensure the public are informed of the dangers and consequences associated with interference with BGN pipelines and equipment.

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

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

The security and reliability of electricity supplies is a key consideration for energy policy and BGE welcomes the CER’s continued focus on this area. Gas is a core enabler of the electricity system, with over 50% of Irish electricity generated from gas. Impact assessment on the economics of the critical gas infrastructure must be a key requirement of any proposed modifications to the electricity market (iSEM).

Recent winters, particularly those with the most severe conditions in January and December 2010 have proven that gas and the gas network is the critical support to meet the nation’s energy requirements when demand is at its highest. Given that the output of wind varies significantly (often over periods as short as 24 hours), gas is best suited to support renewable wind generation. It is the most flexible fuel available to do so, and as the market share of wind increases, the role of natural gas as a flexible fuel supporting wind output will continue to increase and hence should be recognised as a cornerstone enabler of the reliability of electricity supply.

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

*Secure natural gas supplies with improved diversity of sources*

BGE broadly supports the CER’s Security of Supply objectives. BGE commends the CER intention to work closely with the Northern Ireland Utility Regulator (NIAUR) and the Energy Regulator in Great Britain (Ofgem) in the implementation of European network codes. BGE also supports the integration and diversity of new projects onto the natural gas system and agrees with the CER that the addition of such supply capacity is effected without adding disproportional additional costs to customers.

In relation to the revenue review of gas networks, it is imperative that the CER remain consistent in their application of best practice economic regulatory policy frameworks and strategic objectives. BGE and BGN will fully co-operate with the CER on the implementation of the new five year revenue strategy to ensure the continuation of a high quality and efficient customer service for the five year period 2017 to 2022.

With regard to 3.1 - *Gas Market Operational Structures*, the CER states that it “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”. BGE agrees that increasing market coupling and integration can potentially improve gas security of supply and competitiveness in Ireland. However, we feel that this will be best achieved by separating the two key elements: compliance and greater integration.

- With regard to compliance, we believe that it is imperative that efficient and pragmatic solutions are found to ensure compliance with the ENTSOG Codes which will not add additional uncertainty and volatility to revenues and associated costs to consumers;
- With regard to greater integration, we are in favour of increasing integration where it can be shown that there are benefits for the customer. This can be achieved through changes to the Network Code but should only be done in such a manner that does not increase the associated risk or costs with Network Code changes. Any prospective plans to go beyond minimum requirements must add value to the gas market (and hence overall energy market) in Ireland. The amount of change necessitated by the ENTSOG codes to meet minimum requirements is significant, particularly with regards to capacity and tariffs, and it is not clear to what extent the customers in Ireland will ultimately benefit. Further market coupling beyond the scope of these codes, particularly in the area of capacity allocation, is likely to create further uncertainty and it is the view of BGN that it would be prudent to avoid attempting to implement excessive amount of change to the market over a short period of time.

With regard to 3.2 - *Gas System Resilience*, BGE and BGN fully agree that system resilience is imperative for the strategic operation of the gas system, in terms of gas security and competitiveness. In addition to the mentioned new sources of indigenous gas, sources from LNG and improved gas storage, a further potential avenue to improve system resilience is the BGN (through Gaslink) proposal through the European Commission’s Project of Common Interest (PCI) initiative for the twinning of the single pipeline in the South West of Scotland (SWOS). BGE and BGN believe the twinning of the SWOS pipeline would significantly benefit gas system resilience and should be considered for inclusion in the CER’s Strategic Plan.

With regard to 3.3 - *Infrastructure: Gas Networks - Implement new five year revenue strategy for gas networks (2017 – 2022)*, BGN continuously strives to conduct its business in the most efficient manner possible. BGN will cooperate fully with the CER in relation to the full historical and forecast revenue review of gas networks to put in place the correct mechanism for the period 2017 - 2022.

Maximising usage of existing infrastructure should be a key national target. BGN has an extensive network that is present in all of Ireland's large cities and most of our large towns. The investment made to date has been significant; however, the optimisation on this investment is lower than it could be. Optimal utilisation is not being achieved due to the relatively low penetration of households and small businesses to the existing distribution network. Based on data in the 2011 CSO census, oil is used for central heating in over 700,000 households in Ireland, including 300,000 households in urban areas which have natural gas supply (a third of these households are within 20m of a gas supply line).<sup>1</sup> The potential to increase this penetration rate is significant, and in doing so it would lead to increased gas throughput in the existing gas network. This will reduce tariffs for all gas users and reduce the cost of heating where gas replaces oil, LPG or coal. BGN would support review of the gas connection policy to encourage greater conversion of oil heating to gas and also to consider how to encourage further connection of new towns to gas.

#### **Goal 4 - To ensure a “reliable supply of clean water and efficient disposal of wastewater”**

*Secure, robust water supplies and waste water disposal*

IW's mandate as set by Government is to build a national water utility that will provide safe, affordable and environmentally compliant water services to all customers by investing in people, processes, systems and assets. Through the successful delivery of a programme to establish Irish Water, BGE has put in place a company that will deliver high performance in an efficient and progressive way. BGE welcomes the CER's acknowledgement that significant investment is required in the Irish water and waste water sectors to both “modernise an ageing network as well as meet new EU standards on efficient disposal of wastewater”.

With regard to 4.1 – *Establish Framework for the economic regulation of Irish Water*, BGE and IW believe that this objective is of the utmost criticality in the transformation of the sector. IW will need to establish investor confidence before it can attract the level of investment which will be required to radically improve water services over the coming years. The importance of regulatory stability and predictability to investor sentiment cannot be over-estimated. One of the key facets of the energy regulatory model is stable and transparent CER decision-making which has helped the network utilities to access adequate funding to invest in the networks. This investment has directly improved the welfare of the Irish energy customer. IW is confident that CER can build a similarly strong regulatory model in the water services sector and that the application of consistent principles will result in the same welfare benefits accruing to the Irish water customer.

IW welcomes CER's commitment to implementing a coherent framework for the regulation of IW, which includes benchmarking against other utilities. While benchmarking can be a useful tool to identify areas of potential improvement, its reliability is dependent on the quality of the underlying data. As previously discussed with CER, the asset and performance data currently available to IW is extremely limited. As a consequence, any benchmarking analysis carried out in the short-term must

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<sup>1</sup> Irish Academy of Engineering – Policy Advisory – The Future of Oil and Gas in Ireland Feb 2013.

be considered unreliable. However, IW is keen to work with CER over the coming months to develop a suitable benchmarking framework for longer term use. This framework would include an agreed benchmarking methodology and data definitions, and would appropriately reflect IW's level of development and would contrast that with the mature regulatory models operated in GB and across Europe. It is important that the difference in the maturity and life cycle stages of the utility models being proposed for benchmarking is given due consideration in the benchmarking process. This joint approach to benchmarking would be the most efficient option for both parties and would deliver savings to the benefit of the water services customer.

With regard to 4.2 – *System of Charges for Water Customers*, IW will strive to conduct its business in the most efficient manner possible. IW will work closely with the CER to implement Ministerial Directions in relation to charges for customers and to ensure that the charging methods are as fair and transparent as possible.

IW understands that protection of the water services customer is a key function of the CER. We also recognise that meeting the service and quality needs of our customers will be crucial to establishing their confidence in IW. However it is important that customer protection standards are set in a progressive fashion which recognises that IW is in the very early stages of establishment. In IW's response to the CER's recent consultation on the proposed Customer Handbook for Irish Water (CER/14/086), we strongly advocated a phased implementation in line with our operational capability and how this is expected to develop over time.

With regard to 4.3 – *Efficient Investment*, IW's proposed Capital Investment Plan (CIP) for 2014 – 2016 aims to build on the work of previous investment programmes and deliver improvements to a range of water and wastewater services in a progressive manner, including the quality of drinking water, leakage reduction, waste water compliance, business efficiencies and customer service. This investment will help Ireland meet its obligations under EU legislation. It is important to note that compliance issues relate both to the Urban Wastewater Treatment Directive and to the Water Framework Directive.

While the CER's Strategic Plan makes several references to wastewater disposal, it is important to also consider wastewater treatment. This is an intensive process that is required to achieve compliance with European and National legislation and policy and to improve the quality of receiving waters for tourism, recreation and leisure etc.

IW welcomes the CER's commitment to work with both IW and the Environmental Protection Agency (EPA) when determining how EU targets will be achieved. As acknowledged in our Interim Price Control (IPC) submission, IW will have constrained resources in its initial years of operation and while we are committed to working with both regulators to ensure the best outcomes for the water services customer, this can only be achieved where there is consensus on clear and agreed regulatory priorities.

IW also welcomes the CER's acknowledgement of the key role effective asset management will play in the capital investment programme over the coming years. In delivering this asset management approach, IW will examine investments from a whole-life perspective, ensuring that capital spend across the water services network is carried out in an efficient manner. However the scale of the challenge should not be under-estimated. High-level analysis undertaken by IW indicates that it will

take at least a decade of sustained investment, and improved maintenance, to bring water services in Ireland to an acceptable standard to meet the needs of a modern economy.

We acknowledge that the CER will work to ensure efficiencies are made and that reductions in cost will be required. In this context, it is important to note that appropriate investment in systems and infrastructure will be needed if such efficiencies and cost reductions are to be delivered on schedule.

**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*

BGE is committed to delivering through IW and BGN, modern national utility services, which will support economic development, locally, regionally and nationally for today and for the future. BGE will strive to do this by conducting its business in the most equitable, efficient and responsible manner possible. BGE, IW and BGN will work closely and cooperate fully with the CER to benchmark our businesses fairly and appropriately and to ensure that that the most appropriate regulatory settlements can be attained, balancing cost, performance and service quality.

**Goal 6 - To ensure that “Regulation is best International Practice”**

*Living up to our Values*

BGE welcomes and supports the adoption of goals to provide a regulatory service of best international practice. Transparent, consistent and stable delivery of the CER’s Economic Regulatory framework has facilitated necessary investment in the regulated networks and served Ireland well. The importance of regulatory stability and predictability to investor sentiment cannot be over-estimated. One of the key facets of the energy regulatory model is stable and transparent CER decision-making which has helped the network utilities to access adequate funding to invest in the networks. This investment has directly improved the welfare of the Irish energy customer. The consistent application of this framework in the water sector is key to the delivery of similar future benefits to the Irish Water consumer.

BGE, IW and BGN look forward to working with the CER and other stakeholders in a spirit of open dialogue, trust and mutual respect.