

10 July 2015

James Enright
Commission for Energy Regulation
The Exchange
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By email jenright@cer.ie

Dear James,

Ibec thanks the CER for this opportunity to make a brief submission on Discussion Paper 15/096. The following points should be considered in conjunction with our response to consultation CER/13/246.

1. Duration of Interim Revenue Control 2

We agree that a further two-year period is appropriate, given the continuing need for learning about operating costs and the likelihood of major infrastructure projects commencing shortly after the end of 2018.

2. Use of Capital Asset Pricing Model

We agree that the current approach should be continued. We expect that Irish Water's asset beta (and hence its WACC) will remain in line with that of other utility network assets.

3. The use of revenue cap and RPI-X.

We look forward to engaging with CER to get a better understanding of how effective these incentives are proving to be in the current revenue control period.

4. Asset valuation methodology

We reiterate our previously-expressed concern about the proposal to re-set the opening RAB at some point by reference to the need for Irish Water to fund future investments. Conventionally, RABs are set by reference to net book value, rather than to a replacement value. In support of this I would draw the CER's attention to a recent Oxera paper

www.oxera.com/Latest-Thinking/Agenda/2014/The-regulatory-asset-base-and-regulatory-commitmen.aspx

If the CER does decide to start using the estimated replacement value of assets, there is likely to be a substantial step-increase in the company's required revenues at the start of 2019. As previously stated, the deprival value of the opening assets may instead be worth considering as a yardstick.

Yours sincerely,

Neil Walker
Head of Infrastructure, Energy and Environment