

30th January 2020

David Lindsay
The Commission for Regulation of Utilities
The Exchange,
Belgard Square North
Tallaght
Dublin 24

RE: Discussion Paper on the Approach for Transmission and Distribution Price Review Five (CRU/19/152)

Dear David,

In advance of the upcoming consultations on Price Review Five for the Electricity System Operators and Owners, we appreciate this Discussion Paper and the opportunity to feed in our thoughts and experiences on how to potentially improve the process to deliver better outcomes for all.

Bord Gáis Energy (BGE) has for many years been critical of the level of transparency in the existing Price Review process and methodology, which we believe puts us, as a market stakeholder, and the Regulator at a disadvantage in trying to understand the value that is being delivered by the billions of euro allowed to our electricity System Operators and Owners. Our comments on the process and methodology really centre on an approach to try to bring greater transparency into the process and to put the onus on the System Operators and Owner to rationalise investment and the benefit it delivers before being allowed any recovery or return.

At the outset, we understand that the task of the System Operators and Owners in delivering a flexible and agile system with a complete change in the dynamics of demand and generation is a difficult task and one that has not been achieved on a systematic basis anywhere in the world as of yet. We do not believe that either the Commission for Regulation of Utilities (CRU), as an economic regulator, or stakeholders like ourselves in BGE are best placed to determine what is needed by the System Operators and Owner to achieve this goal. This competency and authority sit with the System Operators and Owner. However, the role of the CRU and stakeholders is to challenge in a proactive and constructive manner the System Operators and Owner as to how the monies they spend and the actions they take are delivering value for the Irish system and Irish customer in the context of Ireland's energy policy ambitions. To that end, BGE would suggest a change in the approach for the upcoming Price Review.

In terms of objectives, BGE believes that the CRU should first and foremost set high level objectives for the System Operators and Owner which frame what is expected of them over the coming Price Review period. We agree with the objectives;

1. the PR5 period fosters an environment that facilitates Ireland's transition to a low carbon energy future as Ireland aims to meet its 2030 renewable energy targets, and
2. the role of the DSO is transformed, and industry has confidence in the DSO's capacity to deliver independence and guaranteeing this independence into the future

These are high level objectives that flag the CRUs expectation that the System Operator and Owner develop and operate their systems and businesses in such a way that facilitate the growth of renewable generation, demand side participation, microgeneration, electric vehicles, heat pumps and any other systematic developments that are needed to enable Ireland's low carbon transition.

Objectives 3 & 4, namely;

3. there is a systematic focus on increasing efficiency in the operation of the network companies while continuing to meet the needs of the network and protecting the long and short-term customer interest
4. the network companies are given sufficient incentives to solve the Dublin Security of Supply issues before 2025

are too specific in our view and arguably do not put the right responsibility with the right entity. BGE would suggest that objective 3 should be broadened to an objective of ensuring that during the transition the System Operators and Owner ensure that the ongoing security of supply of the system is not compromised in the interest of the longer-term low carbon goal. In this way, this objective would leave it to the System Operators and Owner to determine how best to balance security of supply today against what is needed to meet our supply requirements of tomorrow. This should in turn oblige them to address security of supply issues in Dublin, Cork or anywhere else on the system within the context of how they develop and operate the system.

Objective 4 is inappropriate in our view. We know already that the System Operator approach to solving this issue is to put an onus on demand sites to develop their own on-site generation if they want to connect to the system. This in our view is a short-term system orientated approach and in reality, the issue of how and where demand connect should be a policy determined by the CRU. The solution to the problem in Dublin is multi-faceted including connection policy, locational signals, emissions limitations as well as system constraints. To that end, as an objective for this Price Review period, we do not believe that this objective sits solely with the System Operators and Owner but is only part of their objective to balance the short- and long-term needs of the system.

In place of Objective 4, BGE would suggest that a more specific customer centric objective is placed on the System Operators and Owners, such that it requires much greater transparency and engagement by them throughout the review period and that their outcomes are considered in terms of consumer benefit delivery. As a market participant, BGE has seen how System Operators and Owners can focus simply on system outcomes or project milestones without thinking through the implications on customers and connected parties. We recognise that over the past 18 months the System Operators and Owners have engaged in a Stakeholder Programme to engage with their customers, however this objective would be broader than simply engagement. This would put an obligation on the System Owner and Operators to frame their decisions in the context of impacts on the system and on its connected parties. To do this, the System Operators and Owner would need to really engage with its stakeholders in advance of projects to understand impact, consider positives and negatives and alternative approaches before undertaking investments.

BGE would also suggest the inclusion of a 5th objective relating to market-based solutions. This is probably more relevant for the System Operators as opposed to the System Owner but the suggestion is that the System Operators should firstly look to market based solutions for any services that they are seeking to procure. The System Operators should not be contracting directly with final customers and any contracts between system users and the System Operators should be through established markets rather than bilaterally.

BGE believes that the Regulatory Framework should change for the coming Price Review period. Rather than the current total expenditure approach whereby the CRU determine what is allowed and how much in advance for a 5 year period (with annual reviews), BGE would suggest that the System Operator and Owner put forward detailed work plans each year which are costed in terms of CapEx and OpEx and the benefits they will deliver to the system and/or customers in terms of the core objectives set for them, as outlined above, for the Price Review Period. This work plan would be subject to consultation by all interested stakeholders before being finalised and submitted to the Regulator for approval/comment. After each year the System Operators and Owner would publish a report on their performance against their workplan and how the investments are performing against expectations¹. This, in essence, is an expansion of the Stakeholder Engagement approach which puts pressure on the System Operators and Owners to be directly accountable and transparent for their plans, actions and ultimately performance.

The costs included in these plans would include a WACC, and the methodology can be agreed in advance, however the WACC would not necessarily be fixed for a set period of time but instead reviewed each year as part of the workplan when the risks of the individual System Operators and Owner can be assessed and set independently.

¹ Appreciating the nature of system investments and the intensity of the process, it may be better to conduct this process over 2 years but with a check point during the 2 year to see if anything material has changed or should change.

In terms of specific targets, outputs and outcomes for the System Operators and Owner, the approach outlined above in our view puts the onus on them to determine **what** they can do and how they can best spend their money to deliver against the core low carbon targets and the specifics of the Climate Action Plan in terms of facilitating Electric Vehicles, Heat Pumps, Microgeneration, Community Projects, offshore renewable generation against the core objective of ongoing security of supply. As important to 'what' the System Operators and Owner do, is how they achieve their objectives and how the investments undertaken deliver value to the customer. Again, in setting high level objectives for the Price Review period, these factors should come out of the annual workplan projections and reviews and the incentive payments or penalties can then be assessed based on demonstratable efforts and improvements by the System Operators and Owner. The performance of the System Operators and Owners should be considered against pre-agreed deliverables and the stated objectives and subject to both rewards **and** penalties. Given the statutory obligations of the System Operators and Owner and the public investment that is being entrusted to them, it would seem inconceivable that they would not be subject to penalties for any underperformance in their roles.

In short, the upcoming Price Review period is going to be strategically critical for Ireland if we are to realistically work towards achieving our low carbon ambitions. We recognise that this will require significant investment by the Irish Electricity customer and we think that the System Operators and Owners are themselves best placed to consider **what** exactly is needed at a system level to facilitate the policy objectives. Greater transparency in what they do, how they do and the benefits they believe the investments are going to make to the overall policy objectives and to the general customer will in our view be critical in placing accountability on the System Operators and Owner. It helps in addressing the natural information asymmetry between the Regulator and the System Operator/Owner but ultimately makes the System Operators and Owner responsible for the investments they make and rationalising their decisions.

I hope you find the above commentary helpful but I appreciate there is a lot of detail that goes behind making the changes proposed above. We are happy to meet with you separately to talk through this in more detail at any stage.

Yours sincerely,



Jill Murray
Director of Regulatory Affairs
Bord Gáis Energy
{by e-mail}