



Public Consultation
on the
Commission for Energy Regulation Electricity Revenue
Review 2006-2010: Transmission Price Control Review

Submission from the
Western Development Commission
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Introduction

The Western Development Commission (WDC) welcomes the opportunity to make a submission to the Commission for Energy Regulation (CER) Electricity Revenue Review 2006-2010.

The WDC is a statutory body established by government to promote, foster and encourage economic and social development in the Western Region¹. Established in 1997, the Commission was put on a statutory basis in February 1999 following the enactment of the Western Development Commission Bill, 1998. One of the main functions of the WDC is regional policy development. As part of this, the WDC seeks to ensure that government policy reflects the needs of the Region across such areas as infrastructure, natural resources, industrial and rural development. It also tracks the implementation of policies and recommends adjustments as appropriate.

As part of its role in monitoring government policy and associated regulation, and ensuring that these reflect the needs of the Western Region, the WDC regards the provision of quality electricity infrastructure and supply as important elements of the infrastructure required to underpin the economic development of the Region.

In this submission we make general comments about the importance of electricity provision in regional development and of ensuring that this is taken into account in decision making about allowable revenue for investment in electricity infrastructure. The focus of this paper is on decisions relating to transmission with specific comment on the CER consultation paper on the 2006-2010 Transmission Price Control Review; the WDC does not comment on the detail of allowable revenues but makes points relating to the conditions and requirements of the CER.

The Importance of Electricity for Regional Development

The WDC believes that an efficient, resilient energy infrastructure is crucial for regional development. Given the importance of energy infrastructure in underpinning development, the WDC is concerned that regions with low population densities and spatially dispersed industrial development, are given due consideration in regard to required investment in electricity infrastructure.

The link between economic growth and electricity demand is well recognised, even to the extent that projected GDP growth is a key element of formulas predicting future electricity demand. Quality, reliable power supply, capable of meeting increasing demand is essential to any economic development.

Manufacturing industry is particularly important in the Western Region which is home to a number of major exporters, forming a significant cluster of advanced manufacturing in the Region. All existing industry needs robust, reliable electricity supply, and infrastructure which is capable of meeting any increase in their electricity needs.

To allow further development, the Western Region needs to be able to attract new industries. The internationally traded services (ITS) sector is seen as a significant growth area for the future in the Western Region. This sector is also very power

¹ Counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare.

dependent, particularly in terms of reliability. In order for the Western Region to be in a position to compete with other parts of Ireland for investment and employment, there needs to be sufficient electricity supply capacity available in order to attract new industries and services to locate or to start up in the Region. Without good capacity and reliability such businesses are less likely to consider regional locations.

As the Enterprise Strategy Group² noted in its report ‘Ahead of the Curve’:

Weak infrastructure in the regions presents a barrier to their economic development. The key mechanism for enabling regional development is to enhance their infrastructure. Regions will attract enterprise only if they have the infrastructure and facilities that allow them to compete with Dublin and international regions for trade and investment. (Ahead of the Curve – Ireland’s place in the Global Economy, 2004, p98)

The WDC has, with IBEC West, raised concerns with both the CER and ESB National Grid (ESBNG) in relation to infrastructure and supply, and has emphasised that appropriate investments must be made to allow the region to compete in attracting industry and employment. While the WDC welcomed the recent improvements and reinforcements in the transmission and distribution networks, there are still areas of difficulty, and the WDC is particularly concerned as to their effect on inward investment and consequently on regional development.

The WDC has specific concerns in relation to transmission infrastructure in Mayo (north Mayo in particular) and its capacity to meet growth in demand from existing and new industry locating there. The transmission problems in Donegal are widely recognised; it is essential that improvements are prioritised and made quickly.

In much of the Western Region there is little choice of energy supply (natural gas is not available to most parts of the Region) and hence the Region is particularly reliant on electricity. It is thus important that electricity users in the region can plan for future developments confident that supplies will improve and that their remoter locations will not militate against them in terms of electricity provision and cost.

The WDC welcomes the CER’s efforts to examine the make up of electricity prices and to control expenditure and thus help to control costs faced by both commercial and domestic users. However, it is essential that in examination of allowable revenue for capital expenditure consideration is given to the broader effects, such as regional development, as well as more technical criteria. The government has a clear policy of balanced regional development and has explicitly acknowledged that electricity infrastructure is an important element of regional development. Key elements of balanced regional development policy, relating to electricity are highlighted below.

Government Policy for Balanced Regional Development

The promotion of balanced regional development is government policy, with the commitments outlined in the National Development Plan 2000-2006 (NDP) and the National Spatial Strategy 2002-2020 (NSS). In both of these major policy documents the role of electricity in regional development is considered. The key points in relation to electricity are highlighted here.

² The Enterprise Strategy Group was appointed by Mary Harney, T.D. Minister for Enterprise, Trade and Employment to develop a 10 year strategy for maintaining growth in enterprise in Ireland.

In the NDP it is acknowledged that the investment in electricity infrastructure and supply will not be directly controlled by the government, but it was highlighted that it should not constrain regional development:

The vast bulk of capital investment in the energy sector over the period to 2006 will take place outside of the provisions provided for in the Plan. The importance of the energy transmission network to the promotion of regional development is recognised. The Government will be concerned, in the context of a more competitive environment for energy supplies, to ensure that energy capacity *does not act as a constraint on regional development*. (NDP, 2000, p67 (italics added))

The WDC would like to emphasise that this should be borne in mind when reviewing required investment in transmission and that regional development considerations be explicitly recognised in planning and development in the sector.

The NSS 2002-2020 is the key government policy on balanced regional development. As was highlighted throughout the NSS, the development of regional infrastructure is essential to achieve that strategy. A number of the relevant points are drawn attention to here.

The NSS emphasises that:

Reliable and effective energy systems, such as gas and electricity to power industry and services, are key prerequisites for effective regional development. (NSS, 2002, p64)

It goes on to suggest that:

Prime considerations in terms of spatial policies relating to energy include:

- Developing energy infrastructure on an all-island basis to the practical and mutual benefit of both the Republic and Northern Ireland
- Strengthening energy networks in the West, North West, Border and North Eastern Areas in particular
- Enhancing both robustness and choice of energy supplies across the regions, through improvements to the national grids for electricity and gas (NSS, 2002, p64)

The NSS also allows for the provision of infrastructure ahead of actual need:

In certain exceptional circumstances, where the NSS is proposing accelerated regional growth, there may be a category of infrastructure whose provision is particularly critical to supporting the growth of, for example, a new gateway and its associated region.

In such circumstances, it may be necessary to consider, over the 20-year horizon to which the NSS relates, the advance provision of key infrastructure ahead of actual need. This might apply in the following circumstances

- substantial growth is anticipated and a quantum shift is required in providing infrastructure such as energy, communications and transport
- the private sector clearly does not have the capacity to provide the particular infrastructure
- the provision of such infrastructure would strongly support the spatial objectives of the NSS. (NSS, 2002, p70)

The WDC would like to emphasise that the provision of infrastructure in advance of actual need is a key part of policies promoting regional development. Examination of revenues available for investment by the Transmission Asset Owner (TAO), Transmission Service Operator (TSO) and the Distribution Service Operator (DSO) *must be able to take this into account* and must be given due consideration by the

CER in its decisions on the amount of revenue that the various units of the ESB should be allowed to recover in the coming years.

Clearly the provision of electricity infrastructure is an essential part of government policy for balanced regional development. It is therefore important that there is a mechanism to take this into account in relation to investment in transmission infrastructure and the development of the electricity grid.

Comments relating specifically to the Transmission Price Control Review 2006-2010 Consultation Paper

The WDC will not make any comments on the detail of the allowable Capital Expenditure (Capex) by the TSO or TAO. Our concern is mainly with particular investments which we feel should take place in the Western Region in order to improve the transmission network and the quality of electricity supply. As detail of proposed projects has not been published in the CER consultation paper this comment focuses on the conditions which the CER are applying in order to allow the proposed Capex provision.

The WDC welcomes the requirement that the TSO will publish a Development Plan before the end of 2005. The details of the proposed Development Plan have not been specified. The WDC believes that the Development Plan should contain a number of particular elements. It should give an overview of the general transmission issues, and should include comment in relation to quality of supply and relevant data relating to this. These would provide background to the detail of the Plan. The Plan should contain detail of all proposed projects with justifications for the projects' inclusion in the plan. The justification should be based both on technical and economic grounds for the investment, possibly including some form of Cost Benefit Analysis. Some of the broader arguments for investment in transmission infrastructure could then be considered. Such information would allow organisations such as the WDC to monitor electricity infrastructural investment and to ensure that infrastructural development is occurring on an equitable basis throughout the country with due consideration of government regional development policy. Furthermore detailed justification of required investment, provided in an accessible manner, allows the public to become more aware of the need for particular electricity infrastructure and could reduce local opposition to transmission projects.

The CER proposes that the Development Plan should be made available for public consultation prior to its submission to the CER. The WDC notes that the CER should review the content of the public consultation to ensure that the final Development Plan takes account of relevant public comment.

The WDC also welcomes the requirement for the publication of a transmission system performance report. Publication of the detail of system performance may take place in a number of formats. The WDC would welcome a *regional* breakdown of system performance covering such issues as reliability of supply, detail of power outages and the reasons for these, and detail of quality of supply and voltage difficulties. Such public information would allow users and interested organisations to be aware of quality issues as they affect different users and to have a clear picture of their own situation. It will also highlight areas in particular need of investment.

The WDC believes that the conditions proposed by the CER are useful and will help to make the investment and the revenues required by the TSO and TAO more

transparent and so can give users greater confidence that appropriate decisions are being made.

Conclusion

This submission from the WDC has covered the role and importance of electricity in regional development and included comments in relation to the consultation paper on transmission revenues. The key points of the submission are noted below.

- The WDC recommends that the review of revenues allowed for capital expenditure on infrastructure must take account of government policies and objectives, such as balanced regional development, and that these be considered as elements of any policy or decisions governing the development of the sector. Currently the CER is obliged to take account of government policy, but the WDC emphasises that the implications for balanced regional development should be explicitly considered in relation to any decision regarding planning and development in the sector.
- The provision of infrastructure ahead of actual demand is an important element of government regional policy. Institutional arrangements for planning and development in the sector should be able to take this into account.
- The WDC has concerns in relation to transmission infrastructure in the north west, in Mayo and Donegal in particular. (These have been raised previously with the CER). While the detail of proposed projects is not given in the consultation paper the WDC notes that it is essential that projects are developed in these areas.
- The WDC has welcomed the requirement that ESB National Grid should produce a Development Plan for transmission projects between 2006 and 2010. We recommend that this plan is sufficiently detailed to provide clear justification for each project on both technical and economic grounds.

The WDC is happy to provide further information or examples in relation to this submission, should they be required.

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If there are any further general queries in relation to this submission, please contact

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