

**newera** 

**FINE GAEL** 



## Executive Summary

November 2009

- **A New Economy:** NewERA is an economic stimulus plan that will radically reshape the Irish economy for the challenges of the 21st Century.
- **New Investment:** €18.2 billion will be invested in Energy, Communications and Water infrastructure over four years to boost long term competitiveness, significantly enhance energy security and eliminate the “digital divide”.
- **New Jobs:** 105,000 new jobs will be created. Although NewERA’s investment programme will largely be funnelled through semi-State companies, most of the new jobs will be created in the private sector through sub-contracting.
- **Old Assets for New:** NewERA will actively manage the portfolio of State companies to make the sector as a whole leaner and more focused. This will include the divestment of some non-strategic assets. We will look to sell ESB International, Bord Gais and ESB PowerGen & Supply, when market and other conditions are appropriate. We have learnt the lessons of Eircom and will retain key infrastructure in the ownership of the State, i.e., the electricity and gas networks, and the hydro power stations which are so vital for flood control. The proceeds from the sale of non-strategic assets will be re-invested in NewERA through a new portfolio of State companies.
- **New Financing:** In addition to the sale of old, non-strategic State assets, NewERA will be financed through: 1) New commercial borrowing by key semi-State companies, which will not count as Government expenditure; 2) Funding from the European Investment Bank (EIB); 3) An injection of funds from the National Pension Reserve Fund; and 4) A NewERA Recovery Bond which will be offered to the Irish people.

## Finding Opportunity in Crisis

Ireland is in crisis. Our economy has collapsed, unemployment is still rising, and the scourge of emigration has returned to stalk our young people.

However, Fine Gael firmly believes that the current crisis, if handled properly, is also a unique opportunity for Ireland to reshape and reinvent itself. What is needed is the vision and courage to make the radical changes required, and a determination to seek out and create new opportunities.

- Fine Gael's "**New Politics**" agenda will radically change the way Ireland is governed by holding a referendum to abolish the Seanad, significantly reforming the Dail and fundamentally redistributing power within the political system.
- Fine Gael's "**FairCare**" will effectively abolish the two-tier system in Ireland and replace it with the very successful Dutch model of Universal Health Insurance.
- Fine Gael's "**NewERA**" plan is an equally ambitious programme to transform the Irish economy for the 21st Century, and to help Ireland return to growth and prosperity.

Fine Gael believes that a thriving, competitive private sector is essential for economic recovery. However, the last eighteen months have also demonstrated that free markets can fail disastrously. When this happens, and private investment dries up, the State cannot simply abandon its citizens. It has a duty to step in and invest, but only if it can deliver genuine reform and real value for money.

As the winter flooding around the country demonstrated, investment in Ireland's creaking infrastructure is desperately needed. It is utterly astonishing that in modern Ireland, our second city could be left without water for almost a week. Unfortunately, the deficiencies in our water infrastructure are matched by deficiencies in other areas such as broadband. Too much of our national infrastructure is second-rate.

We believe that the economic crisis provides us with a unique opportunity to invest in Ireland's strategic infrastructure. There is huge spare capacity in the economy, with a large pool of skilled and un-skilled unemployed workers. As a result, tender prices for major capital projects have fallen by at least 15% to 20%.

Fine Gael wants to take full advantage of these developments to roll out a vigorous investment programme through a reformed portfolio of State companies. If the last twelve years have proved anything, it is that investment without reform is useless. For this reason NewERA will also use the current crisis to transform Ireland's semi-State Sector. While the semi-State companies have played an important role in the development of Ireland's economy they have not, with one or two exceptions, performed nearly as well as they should.

NewERA will actively manage the portfolio of State companies, to make the sector as a whole leaner and more focused. A small number of new commercial State companies will be created in order to better manage NewERA's investment programme. However, the total number of State companies will be reduced through the merger of a number of existing companies and the sale of others (as indicated above).

## There is an Alternative!

Fine Gael launched an earlier version of NewERA in March 2009. Since then Ireland's economy has deteriorated significantly. Unemployment, as measured by the live register, was 369,000, but now stands at 422,500 (October 2009). Under the Government's programme, as per its pre-Budget statement, employment is expected to fall by another 72,000 next year.

Despite this massive deterioration in our economy, the Government has failed to deliver either a convincing economic plan or a credible jobs strategy. The Minister for Finance, Brian Lenihan, initially welcomed NewERA and indicated that he was prepared to discuss it further with Fine Gael. However, nothing has happened in Government since then.

Both Fianna Fail and the Green Party seems to believe that pious platitudes about a Smart/Green Economy, and the constant repetition of the "there is no alternative" mantra are a substitute for real policies to create jobs and restructure our economy.

Fine Gael's approach is very different:

- We are committed to repairing the damage to our public finances and accept that difficult decisions must be made to reduce the budget deficit.
- But we believe it is economic nonsense, when unemployment is so high and private investment has collapsed, to cut back on productive public investment. We cannot keep chasing the economy down by simply focusing on raised taxes/decreased Government spending.

NewERA is specifically designed to answer the hard question: **How can investment be increased when the State has to reduce the budget deficit?**

Our answer is clear: We should follow best practice in other developed countries, and ensure that key infrastructure spending in Energy, Telecoms and Water is financed by the companies that own the infrastructure, rather than by the taxpayer.

In Ireland the companies that own the key infrastructures are mostly State owned. However, borrowing by these companies to finance NewERA will not count as Government expenditure, as these will be financial investments seeking a commercial rate of return. Any borrowing will be repaid through charges on consumers and businesses for the use of new technologies and network infrastructures. Unfortunately, some in Government don't seem to understand this simple concept.

Through NewERA Fine Gael will place the obligation to finance key infrastructure spending precisely where it belongs – on the balance sheets of the relevant infrastructure companies. This is something that should have been done a long time ago, regardless of economic circumstances.

By placing the responsibility for NewERA's funding with the State infrastructure companies, we believe that the State companies in question will have to raise their game. They will have to respond to commercial lenders who will demand much greater levels of transparency and accountability than is currently the case.

### **Three Main Areas for Investment**

Fine Gael has continued to refine its NewERA proposals in the light of changing economic circumstances. We have also sought to respond to the very positive feedback from our various "Business Forums" where we met with over a thousand business people through November 2009.

Our original report assumed a total investment package of €18 billion, which would create 100,000 jobs. However, because of the reduction in tender prices, more can now be done with the same money. We have, therefore, expanded our investment programme with the result that an €18 billion spend now creates 105,000 jobs. €7 billion of the total spend will be transferred from the National Development Plan to NewERA. The remaining €11 billion or so will be new money raised by NewERA.

NewERA's investment programme will focus on three key areas.

### **Energy - €12.2 Billion**

NewERA will establish a new State company, "Smart Grid", by merging ESB Networks and Eirgrid. Smart Grid will work towards three broad sets of targets:

1. To make Ireland a net exporter of energy by 2030 at the latest. By 2020, we envisage Ireland producing well over 50% of its electricity from renewables;
2. To put in place a nationwide infrastructure that will allow 50% of cars to run on electricity by 2025, with 100% running on electricity by 2030; and
3. To protect Ireland from rising energy prices by getting more domestic renewable energy sources connected to the grid as the price of oil rises.

Smart Grid will accelerate the construction of a new "smart energy grid". This grid will allow consumers to reduce energy bills through the installation of Smart Meters in every home, and to sell their own home-produced energy to the network.

Smart Grid will, in addition, facilitate the rollout of greater renewable energy generation, which will reduce our dependence on imported fossil fuels. It will also enable the creation of a nation-wide infrastructure for electric cars, which should significantly cut the costs of motoring over the longer term.

As part of its overall economic strategy, Fine Gael proposes that a "National Recovery Wholesale Bank (NRWB)" will be created. The NRWB will work closely with NewERA and will provide funds to the utilities to allow them to start retrofitting the 1.2 million houses with poor energy ratings. The NRWB will provide the up front funds to the power utility companies, who will then subcontract the work to construction companies. They will, in turn, install insulation and other energy efficient fixtures in applicant houses. The money invested in the retrofit programme will be recouped through "Pay as You Save" schemes, which will allow consumers to pay back the costs of the retrofit over a number of years out of the fuel savings generated.

Finally, NewERA will merge Bord na Mona and Coillte into a new company called “Bioenergy and Forestry Ireland (BFI)” to expand Ireland’s position in biomass. Despite ideal growing conditions, biomass production in Ireland remains low. In order to build on the positive role being played by both Bord na Mona and Coillte, BFI will invest €900 million in 2010-13 in order to allow it to become a global leader in the commercialisation of next generation bio-energy technologies. Thousands of jobs will also be created through an ambitious afforestation target of 15,000 ha per annum.

Some commentators have argued that because of the current recession, and the uncertainties it creates about future energy demand, Ireland should cut back on energy investment. However, Fine Gael is of the firm view that long term energy policy, where investments are being made for the next twenty to thirty years, must be made on a strategic basis and not in response to the current recession.

We also believe that the vital issue of energy security must be tackled as a matter of urgency, particularly in the light of increasing fears about Peak Oil. Ireland currently imports well over 90% of its energy needs, which leaves it very exposed to changes in the price of oil and possible disruption of supply.

We are confident that NewERA’s investment in energy infrastructure will substantially reduce Ireland’s energy import bill of €6 billion and will ultimately lower energy bills compared to what they would otherwise be by:

- Introducing greater competition into the market and increasingly insulating Irish consumers from rising oil prices through a greater use of renewables.
- Allowing consumers greater freedom to generate their own electricity, and giving them much more control over their use of energy through the installation of Smart Meters.
- Facilitating the move to a nation-wide infrastructure for electric cars, and insulating homes with poor energy ratings.

Energy prices are partly inflated because the ESB is poorly capitalised and has to rely on profits to fund its investments. NewERA will directly address this issue.

## **Telecoms - €1.8 Billion**

Fine Gael will establish "Broadband 21" which will invest €1.8 billion over four years to build a high-speed fibre infrastructure throughout the country. The goal is to get Irish broadband speeds into the top five of OECD countries - with 1 million Irish homes connected to fibre - by the end of 2013.

The botched privatisation of Eircom, combined with a Government failure to develop a coherent broadband strategy, means that Ireland is now well behind its competitors in broadband. According to the National Competitiveness Council, broadband penetration among firms in Ireland is the second worst among the EU-15, and is particularly low among small businesses. Even where broadband is available, it is often of such low quality (bandwidth) that it is not capable of supporting the "next generation" services being rolled out in other countries.

Broadband 21 will amalgamate and build out the diverse telecom assets of existing state companies, including Bord Gáis, CIE, ESB and the MANs (managed by Enet for the State), to create a new, pan-national, open-access, next generation broadband network. The associated investment will be paid back by leasing our capacity to telecoms carriers and directly to home and business customers.

The vast bulk of Broadband 21's €1.8 billion investment in telecoms will be used to drive investment in the so-called "last mile" of the network – the link from the exchange in the town to the cabinet on the street, and from the cabinet on the street to the home. In most areas, this part of the network is still low-capacity copper wire, and is the major obstacle to high-speed broadband connectivity.

Broadband 21 will enter into discussions with other telecom and cable companies (with a specific focus on Eircom) to upgrade this last mile infrastructure to fibre in the most highly populated areas of the country. We believe that up to 1 million Irish homes can be connected to fibre over the next four years.

## **Water - €4.2 Billion**

NewERA will invest €4.2 billion to upgrade Ireland's water infrastructure. We will deliver real economies of scale by bringing all of Ireland's water assets under the ownership of one State company, "Irish Water".

Ireland currently spends €700 million (excluding capital expenditure) each year to produce clean drinking water. Yet around 43% of water is wasted through leakages in the water system. The fragmented nature of the water industry, in which 34 local authorities are responsible for investment and maintenance, also means that there are currently no real economies of scale.

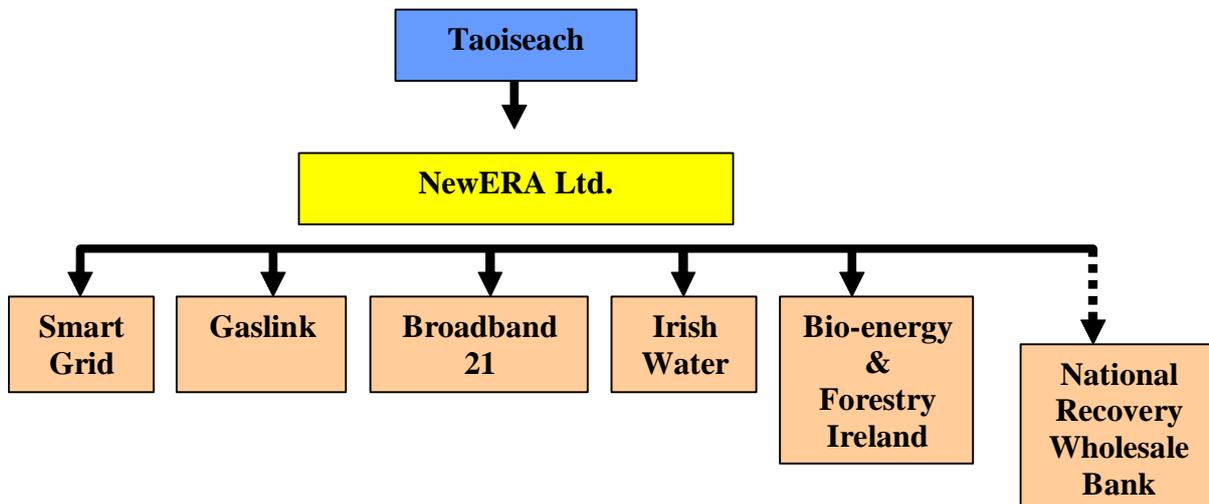
## A Restructured Semi-State Sector

Under NewERA, Fine Gael will establish a new State holding company (*NewERA Ltd.*) which will act as a “Manager” for the sector as a whole. It will oversee the restructuring of the sector through a combination of mergers, divestments and the creation of a small number of new companies. As a result of the NewERA consolidation programme there will be a net reduction in public bodies, companies or agencies. NewERA Ltd. will be held to account for its performance by the Taoiseach of the day, who will appoint the CEO and the board of the company.

NewERA Ltd. will be a commercially driven State company with a staff of 100 professionals. It will also be established with a “sunset clause” which will require its dissolution after seven years. We believe this is sufficient time for NewERA Ltd. to re-organise the semi-State sector into a series of more focused, more dynamic companies. For those in Government who do not appear to understand the nature of a commercially driven semi-State company, NewERA is not a quango.

As Figure 1 shows, NewERA Ltd. will oversee five separate semi-State companies, and will work closely with the National Recovery Wholesale Bank.

Figure 1: A Restructured semi-State sector



- **“Smart Grid”**: A merger of ESB Networks and Eirgrid.
- **“Gaslink”**: the existing State operator of the gas network, will absorb Bord Gais networks to become the owner and operator of the gas network.
- **“Broadband 21”**: Will amalgamate the telecom assets of existing state companies, including Bord Gáis, the NRA, the ESB and the MANs (Metropolitan Area Networks) which are managed for the State by Enet.
- **“Irish Water”**: Will take over the water investment and maintenance programmes of the 34 existing local authorities.
- **“Bioenergy and Forestry Ireland (BFI)”**: Will merge Bord na Mona and Coillte.
- **“National Recovery Wholesale Bank”**: A wholesale Bank that will provide financing directly to energy utilities to fund retrofits for houses with poor energy ratings.

### **105,000 JOBS...**

NewERA investments will stimulate the construction sector and the wider economy in the face of the recession, supporting just over 105,000 additional jobs by 2013, split almost evenly between jobs directly created from the investment spending (construction, engineering etc.) and spin-off jobs from the extra consumer spending and the positive competitiveness effects of the investment programme. The new jobs are likely to be spread evenly between regions and skill levels, and will likely be concentrated in the following areas:

- Telecoms, civil and structural engineering
- Plant maintenance and operation
- Scientific researchers
- Insulation and home energy appliances
- Plumbing, electrical work and other construction crafts
- Software programming and support
- Forest maintenance and timber processing
- Digital content production for health, education and Government services

**Figure 2: Impact on the Economy**

	2010	2011	2012	2013
Multiplier Effect of Additional Infrastructure				
Investment	1.0	1.5	1.8	2.2
Impact on GDP (€m)	950	3,600	5,775	9,460
Wage Share of Increased GDP (%)	50%	50%	50%	50%
Wage Share of Increased GDP (€m)	475	1,800	2,888	4,730
Average Wage (€)	45,000	45,000	45,000	45,000
Increased Employment	<b>10,556</b>	<b>40,000</b>	<b>64,167</b>	<b>105,111</b>
of which: direct	10,556	26,667	36,667	47,778
indirect (spin-offs)	0	13,333	27,500	57,333

These job forecasts are based on conservative assumptions, drawn from empirical evidence of the economic impact of investment in construction and infrastructure<sup>1</sup>. For example, empirical analysis of the Irish economy between 1970 and 2006 by Philip Lane of Trinity College finds that government investment has a positive “Fiscal Multiplier” that is well above unity: a given boost to public capital spending raises output by considerably more than the size of the injection.

It may well be that these figures are too cautious. As mentioned in a previous section, about €3 billion of the total NewERA investment relates to investments in water and telecoms infrastructure that the Government currently proposes to finance from general taxation. While these investments and the resulting job creation is not currently counted as “extra”, there is now a clear risk that much of the tax-funded water and broadband investments currently planned will, in the absence of NewERA, be abandoned because of Government cutbacks to the capital programme

The spin-off “employment competitiveness” effects of the investment programme will be substantial. Again, the analysis by Lane shows that a boost to public investment has a significant long-run positive impact on business costs and external competitiveness. It is noticeable that the key utility networks targeted for additional investment by NewERA – water, broadband and energy – have been identified by the National Competitiveness Council, the OECD and the European Commission as key weaknesses for the Irish economy and sources of high costs for Irish businesses.

<sup>1</sup> Fiscal Policy for the Crisis, IMF Staff Position Note, December 2008; The Impact of Fiscal Shocks on the Irish Economy, Benetrix and Lane, Institute for International Integration Studies, February 2009

## ... and a Positive Impact on the Public Finances

By stimulating new investment and job creation in the economy, and by financing some investments (in water and telecoms) commercially rather than by taxation, NewERA will also cut the Government borrowing requirement by just over €4 billion by 2013 – or 20% of the current year's deficit.

**Figure 3: Impact on Government Finances**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Extra Taxes Raised (€bn)	238	900	1,444	2,365
Reduced Social Welfare Spending (80% of new jobs taken by unemployed, saving €18,000 per head)	152	352	565	925
Reduced Exchequer Financing of Infrastructure (replaced by commercial financing by NewERA)	797	797	797	797
<b>Total Reduction in Government Borrowing</b>	<b>1,186</b>	<b>2,049</b>	<b>2,805</b>	<b>4,087</b>

## Financing NewERA

NewERA is a long-term financial investment by the State in commercial sectors of the economy – energy, telecoms and water – that can ultimately earn a financial return. In nearly all advanced economies, it is considered both fairer and more efficient that services in these sectors be paid for through user charges on households and businesses, rather than through general taxation. That is why these investments do not count as Government expenditure. The investments are reflected on the balance sheet not of the Exchequer, but of the NewERA companies, where they should be.

NewERA targets total commercial investment of just over €18.2 billion. Just over €4 billion of this investment is already planned by the Eirgrid, ESB and other commercial semi-state companies, to be financed out of retained earnings and additional borrowings. These investments will continue under NewERA.

Just over €3 billion of the total investment relates to investments in water and telecoms infrastructure already set out in the National Development Plan that the Government proposes to finance from general taxation. We propose to maintain these investments, but to finance them instead through commercial state companies. This is entirely appropriate given the commercial nature of the investments, and indeed has the added benefit of relieving pressure on the public finances.

The remaining €11 billion are additional investments planned by NewERA, over and above existing commitments for the period 2010-13. Some of these relate to entirely new investment plans (e.g. next generation broadband across the country); others relate to our intention to bring forward investments currently scheduled after 2013 (e.g. “Grid 2025”) in order to take advantage of spare capacity in the economy and the need to swiftly move the economy back onto a more sustainable growth path.

At least €14 billion of the planned investments require, therefore, additional financing above and beyond what is already planned by existing semi-state companies.

**Figure 4: Total NewERA Investment**

	2010	2011	2012	2013	Total
<b>Outstanding Investment Programmes under NDP to be Moved (and refinanced) under NewERA</b>					
Energy (incl. c. €1.0 billion for network and inter-connection; c. €3.0 billion on distribution; connections etc.)	967	967	967	967	<b>3867</b>
Water (expanding and improving water and waste water infrastructure)	723	723	723	723	<b>2892</b>
Broadband (MANs, Group Broadband Scheme, Rural Broadband Initiatives)	74	74	74	74	<b>295</b>
Bioenergy (existing Bord na Mona investment programme (wind farms; waste to energy etc.))	50	50	50	50	<b>200</b>
<b>Total</b>	<b>1,814</b>	<b>1,814</b>	<b>1,814</b>	<b>1,814</b>	<b>7,254</b>
of which: tax financed (water and broadband)	797	797	797	797	<b>3,187</b>
<b>Additional Investment under NewERA (over and above existing commitments)</b>					
ESB "Smart Grid" (to accelerate "Grid 25" strategy to bring on renewables, smart meters and electric cars)	200	800	1,000	1,200	<b>3,200</b>
Broadband 21 (optical fibre connections to 90% of Irish homes; wireless infrastructure for other areas)	50	250	500	750	<b>1,550</b>
BioForestry Ireland (commercialisation of next generation bio-energy technologies and expanded afforestation)	100	150	200	250	<b>700</b>
Irish Water (transfer of existing local authority assets and expanding NDP investment programme)	100	200	350	600	<b>1,250</b>
National Recovery Wholesale Bank (to finance a "pay as you save" national housing retrofit programme)	500	1,000	1,250	1,500	<b>4,250</b>
<b>Total Additional NewERA Investment (€m)</b>	<b>950</b>	<b>2,400</b>	<b>3,300</b>	<b>4,300</b>	<b>10,950</b>
<b>Total NewERA Investment (€m)</b>	<b>2,764</b>	<b>4,214</b>	<b>5,114</b>	<b>6,114</b>	<b>18,204</b>

The final financing plan for these investments will require more detailed analysis of the balance sheets of existing semi-state companies than is available to us, and also further consultation with corporate finance advisers. The financing plan will have a number of dimensions:

- While significant new equity will be required, most of the new investments can be financed by additional borrowing, as is normal for utility-type investments given the relative stability and predictability of their future earnings. In this sense, any equity investment can be leveraged up significantly through private borrowing.

- To maintain complete public ownership of these strategic network assets all of the new equity will come from a combination of:
  - o Directed investments from the National Pension Reserve Fund (as with the €7 recapitalisation of AIB and Bank of Ireland), thereby redirecting national pension funds from overseas into domestic investments. The Fund will be replenished over time through dividends from, and asset sales by, NewERA.
  - o Directly from the Exchequer (as with the €4 billion recapitalisation of Anglo Irish Bank). The Exchequer will also expect to earn a commercial rate of return.
  - o The sale proceeds of state assets no longer considered strategic to national economic recovery, such as Bord Gais Energy Supply and ESB International.

None of these financing approaches affects the annual General Government Balance, although the last approach does increase the stock of national debt.

It is envisaged that the additional borrowing on top of the equity investment will come from a number of additional sources:

- At least €2 billion will come from a National Recovery Bond to be issued to the Irish public, offering an annual interest rate set at above existing bank deposit rates;
- At least €2 billion will come from loans from the European Investment Bank (EIB). The EIB has already loaned €300 million to help finance the Ireland/Wales electricity link; and
- The balance will come from commercial bonds issued to Irish and international pension funds and institutional investors. The recent success of Bord Gais in raising funds indicates clearly that there is an appetite in the market for utility debt. Bord Gais' €550 million debut Corporate Bond was significantly over-subscribed.

### **Seed Capital**

It will be essential in its first year of operation to inject seed capital into NewERA. We propose that this should come from two sources:

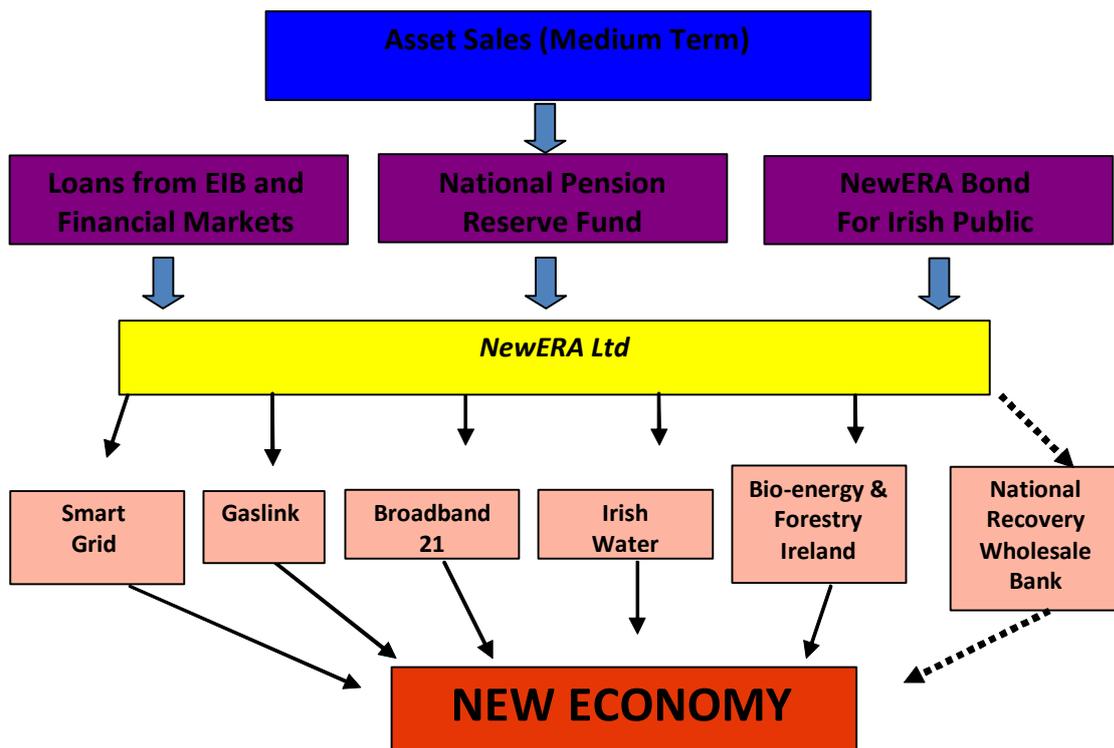
- The Government has stated that it plans to reduce the State's capital budget by €750 million. Fine Gael has already made it clear that while we are in favour of reducing the budget deficit by €4 billion, we are against any move to reduce public investment. Instead, we will use this €750 million to initially capitalise NewERA.
- Fine Gael has also stated previously that it will establish a National Recovery Wholesale Bank to provide much needed credit to the Irish economy. In year 1, we will inject €1 billion into the NRWB from the National Pension Reserve Fund. We believe this is a much better use of the NPRF's money than recapitalising a dead bank like Anglo Irish.

Since total new investments by NewERA in Year 1 are a little less than €1 billion, we are confident that these capital injections will more than fund the proposed new outlay.

We recognise that additional equity will be required, which will be leveraged by NewERA through additional commercial borrowing. The new equity will come from two sources:

- Proceeds from the sale of non-strategic assets, as outlined in previous sections, will be available for capitalisation.
- If the State makes sufficient progress in reducing the budget deficit, we believe that it will be able to borrow funds in later years to inject additional equity into NewERA. This is one of the key reasons why Fine Gael is determined to bring down the budget deficit.

Figure 5: Financing of NewERA



## Appendix

### A New Portfolio of State Companies

In the main report we gave a detailed description of each of the State companies (new and existing) that would be included under NewERA.

Since the launch of NewERA we have revised our numbers and, in addition, made some changes to the structure of NewERA to improve its effectiveness. The following summaries reflect these various changes and updates.

#### Smart Grid

Smart Grid will work towards three broad sets of targets:

- To make Ireland a net exporter of energy by 2030 at the latest. By 2020, we envisage Ireland producing well over 50% of its electricity from Renewables;
- To put in place a nationwide infrastructure that will allow 50% of cars to run on electricity by 2025, with 100% running on electricity by 2030; and
- To protect Ireland from rising energy prices and a reliance on imported fuels by getting more domestic renewable energy sources connected to the grid.

Smart Grid will be formed from the merger of Eirgrid and ESB Networks. It will take ownership of Ireland's electricity transmission and distribution infrastructure and invest an additional €3.2 billion (on top of the c. €3.9 billion investment already planned) to develop a 21st century "smart grid". The goal is to accelerate and, if necessary, modify the network development plans contained in ESB 2020 and in Eirgrid's Grid25 plan.

#### Gaslink

This is the existing State operator of the gas network and under NewERA will absorb Bord Gais networks to become the owner and operator of the gas network.

#### Broadband 21

Broadband 21 is a new company that will invest €1.8 billion to build out a high-speed fibre infrastructure through the country. The goal is to get Irish broadband speeds into the top five among OECD countries by the end of 2013<sup>2</sup>, and connect up to 1 million Irish homes to fibre over the next four years.

The current lack of co-ordination and planning between State companies in Ireland is

<sup>2</sup> Latest OECD statistics has Ireland 26th, only ahead of Hungary, Poland, Turkey and Mexico.

best demonstrated by the State's chaotic role in telecommunications infrastructure. Companies and agencies such as the ESB, the NRA, Iarnród Éireann, Bord Gáis, ENET, and Bord na Mona all have substantial amounts of broadband fibre spread around the country but manage their infrastructure independently of one another.

Broadband 21 will amalgamate and build out the diverse telecom assets of existing state companies, including Bord Gáis, CIE, ESB and the MANs (managed by ENET for the State), to create a new, pan-national, open-access, next generation broadband network. However, the vast bulk of Broadband 21's €1.8 billion investment in telecoms will be used to drive investment in the so-called "last mile" of the network. Broadband 21 will enter into discussions with other telecom and cable companies (with a specific focus on Eircom) to upgrade this last mile infrastructure to fibre in the most highly populated areas of the country.

### **Bio-energy & Forestry Ireland (BFI)**

BFI will invest €900 million to become a global leader in the commercialisation of next generation bio-energy technologies for transport, home and district heating and power generation.

BFI will be formed from the merger of the successful Bord na Mona and Coillte businesses. We believe that a new company is required to give biomass development the priority it deserves. The national afforestation programme, in particular, is in disarray. Actual afforestation is in the region of 5,000ha per annum, compared to a 10,000ha target. The new company will target a figure of 15,000ha per annum.

As part of its biomass strategy Fine Gael will ensure that the Government, which currently spends over €300 million a year on imported fossil fuels to heat and power public buildings across the State, will become a major biomass customer.

### **Irish Water**

Irish Water will take over water provision functions from the 34 Local Authorities that currently perform this role. It will drive a total of €4.1 billion investment in new infrastructure in 2010-13, of which €1.25 billion will be additional investment over and above NDP commitments. Local Authorities will act as agents for Irish Water in maintaining and upgrading water infrastructure and in collecting payments.

Irish Water will:

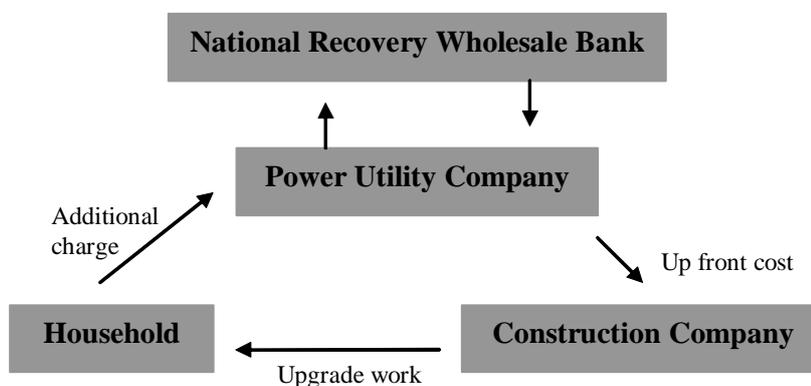
- Invest an additional €250 million on fixing or replacing leaking water pipes;
- Facilitate more rapid urban development when the property market recovers by investing an additional €1 billion in extra water delivery and waste water infrastructure for high density urban residential and commercial development, with a particular focus on NSS hubs and gateways;
- Ease the cost burden on Irish businesses by delivering economies of scale in the costs of operating and upgrading Ireland’s water infrastructure (by putting the water operations and investments of the 34 local authorities under one roof) and by spreading the cost of water investment over 30 years;
- Provide security of supply for drinking water by providing for greater interconnection of water supplies.

In the case of septic tanks Fine Gael plans to introduce a certification process that will require the upgrading of all septic tanks by 2015 that do not meet current standards.

### National Recovery Wholesale Bank

As part of its overall economic strategy Fine Gael proposes that a “National Recovery Wholesale Bank (NRWB)” will be created. The NRWB will work closely with NewERA and will provide funds to the utilities to allow them to start retrofitting the 1.2 million houses with poor energy ratings (see Fig.6 below). The NRWB will provide the up front funds to the power utility companies, who will then subcontract the work to construction companies. They will, in turn, install insulation and other energy efficient fixtures in applicant houses.

Figure 6: The National Recovery Wholesale Bank



We estimate that the National Recovery Wholesale Bank will provide financing of €4.25 billion as part of this process. This investment will be recouped through “Pay as You Save” schemes, which will allow consumers to pay back the costs of the retrofit over a number of years out of the fuel savings generated.

The Institute for International and European Affairs estimate that there are approximately 1.2 million homes which could potentially benefit from an energy efficiency upgrade to a standard C1 on the Building Energy Rating scale. If a dedicated campaign was undertaken to retrofit these homes then the work would take an estimated 12-15 years (rather than 85 years at current levels of investment).

All of the available evidence suggests that if average houses are fully insulated, savings of around **€1,100 a year** are possible. In other words, energy savings for almost all householders will more than meet the cost of installing energy efficient fixtures.

With these new loan schemes in place, there is enough spare capacity in the construction industry to upgrade 50,000 houses per year from 2010, rising to 100,000 houses in 2013.

### **A New Utilities Commission**

Parallel to the establishment of NewERA Fine Gael will also put in place a new more powerful pro-consumer regulatory system. Specifically, we will merge ComReg with the Commission for Energy Regulation into a single, more powerful Utilities Commission, which will also take responsibility for the regulation of Irish Water. We believe that a larger cross-sectoral regulator will have a number of advantages.

- It will lessen the danger of ‘regulatory capture’ by dominant utility providers.
- Regulation is a highly complex process; there will be clear synergies in the legal and economic expertise used in the regulation of telecoms, energy and water.
- There will be greater flexibility in reallocating resources as circumstances change.
- There will be administrative efficiencies and lower costs for regulated companies.



