

# **ALL-ISLAND ENERGY MARKET – Sustainability in Energy Supplies: a 2020 Vision for Renewable Energy – Preliminary Consultation Paper**

## **General**

The Department of Finance welcomes the joint North-South Consultation Paper: *A '2020 Vision' for Renewable Energy*. The availability of reliable, competitively priced electricity is a critical input to economic growth. In this context, the Department is pleased to note the focus on the need to develop significantly the renewable sector to meet the island's energy needs into the medium and long-term. Currently this country is reliant on imported, depleting, fossil fuels for electricity production. The fact that the UK, through which the bulk of our gas requirements is sourced, has since last year been a net importer of gas must be a cause of concern in this regard. Added to this are the significant uncertainties associated with such fuels in terms of price, supply, the projected further major increase in demand from emerging economies, especially China, and geo-political developments which could impact on imported fossil fuels. Against this backdrop, the importance of optimising native energy sources, within reasonable cost and efficiency parameters, cannot be disputed. Clearly energy conservation is also important in this context.

## **Specific Comments**

### **1. Risks confronting fossil-fuel**

In order to place the discussion about the need to develop the renewable sector into context, the paper should set out, and assess more fully and precisely, the various risk factors confronting the fossil fuel sector. These risks relate, inter alia, to:

- ✧ price uncertainty,
- ✧ geo-political uncertainties with the potential to affect the supply not just of oil, but of gas as well.
- ✧ the rapid depletion of international stocks of fossil fuels,
- ✧ the anticipated impact of rapidly growing demand, nationally, but more especially in the emerging economies, on supplies of fossil fuels,
- ✧ the impact of the Kyoto protocol on the use of fossil fuels,

### **2. Target-Setting**

It is noted that the paper does not propose targets for RES-E to 2020 and that it is considered that further work needs to be done to produce 'possible targets' (page 4). In our view, the setting of sensible, yet ambitious, long-term targets for renewable energy is essential if real progress is to be made in this area.

### **3. Relationship with Oil Prices**

The paper touches on the relationship between increases in natural gas prices and the competitiveness of RES-E (page 39). This issue is central to the debate and so requires more detailed treatment. In particular, discussion and data around the level which oil/gas prices would have to reach to make renewables a more attractive investment option is essential. Along side this, there is a need for an assessment of the impact on the economics of alternative energy of a reduction in fossil fuel prices. The issue of fossil fuel prices is important for a variety of reasons, not least of which is its relevance to any consideration of various possible support regimes for renewables. Without this information it is difficult to generate an informed discussion of the pros and cons of setting ambitious targets for renewable energy.

#### **4. Consideration of all options**

Understandably, much of the debate about renewables focuses on wind power and it would seem that, for the foreseeable future, that source will continue to represent the most significant source of alternative energy. However, in order to ensure that alternative energy options are exploited to the full and that the effects of the non-dispatchable nature of wind energy are abated to the greatest extent, future policy should embrace all relevant, including emerging, technologies and systems.

#### **5. Investment in Renewables**

This Department would endorse the views expressed in the paper that it is the private sector that will mobilise the substantial investment needed to maintain renewables in a manner which equitably shares risk and reward, that the most economically feasible contribution from renewable sources must be pursued and that investment decisions must be soundly based and return good value for money. The paper indicates, on a number of occasions, that there is a rôle for public investment in renewables. This Department acknowledges that appropriate, strategic investment by the State in this area may be appropriate in circumstances where there is clear market failure and where such investment is supported by rigorous cost benefit analysis. Of course, any claims for Exchequer investment in this sector would have to argue their case for prioritisation against the competing demands of other sectors in the allocation of scarce public resources. Ultimately, any decision to invest in renewables will be based on a complete assessment of the trade-off between costs and security of supply and the risks of further hikes in oil and gas prices. That is why it is so important to establish the price of oil and gas that would make each source of alternative energy competitive in terms of price to the consumer. It would also be necessary to design any renewable energy projects in a manner consistent with State Aid rules. The possibility of tax relief to encourage investment in renewables is also alluded to in the paper. There is already such provision in respect of Corporation Tax. Any proposals for further such relief would be assessed against the background of experience and general policy in this area.

#### **6. Rollover of Review**

The energy sector generally is dynamic and the renewable area is one where developments of existing technology and new breakthroughs, along with international and national economic developments, will certainly present many new challenges and opportunities. Accordingly, it is suggested that the 2020 Vision should be 'rolled-over' at least every three/four years to take on board changes affecting any of the key variables underpinning policy in this area.