



Commission for Energy Regulation

An Coimisiún um Rialáil Fuinnimh

**CER Submission to the Department of
Communications, Marine and Natural Resources
on the Green Paper on Energy:**

Towards a Sustainable Energy Future for Ireland

CER/06/259

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Executive Summary

Significant changes will take place in energy markets in Ireland in the next 5 – 10 years. The Government must now make the strategic policy decisions to ensure that the markets are best placed to meet the challenges of increasing European market integration and coordination. Ireland's reliance on imported fossil fuels for our energy needs means that increasing focus must be turned to sustainable and renewable power sources. National security of supply must become a greater priority for the Government, while a specific policy on fuel diversity also needs to be developed.

This policy review coincides with the latter stages of the development of new wholesale electricity trading arrangements for the island of Ireland; the Single Electricity Market (SEM). This makes the review timely, as it highlights the steps which the Government should take to complement the development of the SEM and the wider AIEM with structural reform of the ESB Group. There has never been a more appropriate time to carry out this reform. This structural reform will reduce ESB's ability to set prices in the market and if it is carried out in the correct way, will encourage the development of greater levels of competition in the market.

In this submission, the Commission sets out its proposals in relation to the reform of the ESB Group. This reform will build upon the tangible progress towards truly competitive markets which has been made in 2006, both through the CER – ESB asset strategy agreement and through the decision to end tariff regulation for larger customers. The Commission also believes that the time is now right to separate the electricity networks from ESB Power Generation and ESB Supply, through the establishment of an independent state owned networks company.

The natural gas market would also benefit from structural reform of BGE. A policy move to completely separate the networks business of Bord Gáis from the supply business following full market opening in 2007 would send the correct signals to potential new entrants to the market and would deliver improved value to gas customers.

Initiatives for increased interconnection are particularly to be welcomed. The Commission would now urge the Government to fund interconnection initiatives and other strategic network investments through the National Development Plan (NDP).

Implementation of the policies outlined in the Green paper will require significant commitment and purpose, both from the Government and from the market. The policies which are eventually decided on by the Government and outlined in the White paper should be clear and unambiguous and outline a path for the development of the sector in the long term. The CER will commit to working with the Government and all market participants and customers to achieve these final policy targets. Strong Government leadership and direction and the maintenance and consolidation of independent regulatory structures will be important features in ensuring the continued development of electricity and gas markets in Ireland for the foreseeable future.

1.1 Introduction

Vibrant, sustainable and cost effective electricity and gas markets are a central pillar of any successful economy. However strategic decisions need to be made now to safeguard the future direction of these markets in Ireland. The sector faces many challenges, including high fuel prices, reliability of supply and concern over the environmental impact of burning fossil fuels. Furthermore European policy favours the integration of national markets starting with the creation of regional European markets, with the eventual goal of the establishment of a single energy market for Europe.

Against this background, the Government's review of energy policy is timely. The Irish electricity market has undergone significant changes since the year 1999 and further changes will take place in the short term with the establishment of the SEM in 2007. Progress towards the liberalisation of the gas market is continuing with full market opening also due to take place in 2007. Therefore it is clear that the correct structural and regulatory policies to build upon this progress must be developed now. It is also becoming more and more obvious that the energy sector in Ireland is not isolated or insulated from policy decisions made elsewhere. We are part of a global market for fuel, while our dependence on the UK alone for natural gas is striking. Energy and regulatory policy in Ireland has to adapt and cope with these external factors.

The Commission for Energy Regulation (CER) will have an important role to play in continuing the push towards competitive energy markets in Ireland, as required under statute. The CER welcomes the opportunity to comment on the proposals and targets outlined in the Government's Green paper and in this process provide an input into the Government's policy formation. The Commission does not attempt to respond to each and every proposal in the Green Paper, but rather focuses on the issues which lie within its statutory remit.

2.1 Development of an energy policy that places competition at its core

This section outlines the CER's response to many of the key energy policy proposals outlined in the Green Paper. The CER agrees with the Government's identification of three key strands for developing a sustainable energy future for Ireland, namely;

- Ensuring the security of energy supply
- Promoting the sustainability of energy supply
- Enhancing the competitiveness of energy supply

The above strands are not mutually exclusive. It is the Commission's position that through the development of strong policy decisions by the Government, coupled with independent regulation, the goals of energy security, reliability, sustainability and value for money for customers can all be achieved to the greatest extent possible.

2.2 Competitive Electricity Market Reform

2.2.1 Development of the Single Electricity Market (SEM)

The development and implementation of the SEM for the island of Ireland is the most important mechanism for ensuring electricity market liberalisation in Ireland. It will define the competitive market structure in Ireland for the foreseeable future. However, the SEM represents only the first significant step towards the All Island Energy Market ("AIEM"). This model of all-island strategic energy goals which deliver mutual benefits to all consumers on the island should remain at the core of Ireland's energy policy. The policy objectives of the All Island Energy Market must be vigorously pursued. Moving forward, all other electricity policy decisions which will be made will be implemented through or alongside the operational structures and rules of the SEM or the wider AIEM as it unfolds. Therefore the importance of the SEM/AIEM in the context of the Government's Green paper cannot be overstated.

2.2.2 Deloitte Report

However regulatory structures alone do not guarantee competitive markets. Important decisions need to be made by the Government in relation to the structure and role of the ESB Group in order to complement the regulatory and market structures which have been and will be put in place. The Deloitte Report, which the Government has published along with its Green Paper argues a strong case for structural reform of the ESB Group. It suggests a number of reform options, or alternatives to the present ESB model. In particular Deloitte favours including a level of atomisation of the ESB Power Generation and Supply businesses with a number of suggestions put forward.

The Commission has previously advised the Minister that it considers that Alternative 4 of the Deloitte scenarios is the correct answer for the most rapid development of

competition in all sectors of the electricity market. Deloitte has called this option “Portfolios and Separation”¹ and involves the “atomisation” of ESB.

However, if the atomisation of ESB at this point is not a practical, feasible or likely option, the Commission believes that there are other options open to the Government for the restructuring of ESB and the development of competition.

A strategy involving the progressive divestiture of ESB Power Generation (ESB PG) assets, coupled with the development of the SEM and progressive exit of ESB PES from the retail market is a feasible and stable model available to the Government at this time. This is of course a slower model for developing competition, particularly at the domestic end of the market, compared to the atomisation model.

The Commission’s policy proposals are outlined in the following section.

2.2.3 ESB and market reform

If atomisation is not an option, the following strategy should be adopted by Government as policy for the appropriate level of structural reform of ESB and as a pragmatic and realistic approach to the development of a competitive electricity market in Ireland.

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|---|
| <ul style="list-style-type: none">- Establishment of an independent state owned electricity networks company.- Retention of ESB PG and ESB PES as independent subsidiaries under an ESB holding company.- Continued implementation of the incremental model of market reform, complementing the competitive market structures of the SEM. |
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Further detail on this three point plan for the structural reform of ESB and the competitive market in Ireland is outlined below;

2.2.3.1 Electricity Networks

This step involves the retention of the electricity networks (both transmission and distribution) in state ownership, as strategic national assets. However the Commission believes that these networks should be owned and operated by one single company, completely independent from businesses operating in the competitive markets.

While it is true that ownership unbundling of networks is not required by EU law - at least as it stands at present - there is a strong argument that incentive driven and effective regulation of the networks business can only be achieved if the regulated networks business is in a position to absorb risks and respond commercially to such

¹ Portfolios and Separation involves the sale of two separate portfolios of ESB generation plant (sale of around 2,234 MW) and the splitting of ESB PES into three separate entities, two of which would be sold off with one supply entity remaining within the ESB Group (“atomisation”). The option also involved the removal of ESB Networks, the owner of the network assets from the ESB Group, but retaining this body within state ownership.

incentives. In other words, it should have a substantial balance sheet. A system operator with little or no commercial interest in the asset base that it is operating will almost unavoidably have a strong incentive to over prescribe system requirements.

This networks business should be operated under a “not for profit” model, that is only allowed a small regulated rate of return on equity which would incentivise efficiency improvements and cover the cost of borrowing for the entity. Indeed it is suggested that this model would result in significant cost savings over time in tariffs for customers, particularly through profits and resulting dividend payments being reduced or eliminated.

2.2.3.2 Generation and Supply

The CER remains neutral on the issue of the ownership of generation and supply companies in the market. In this respect, the Commission does not believe that there would be significant benefits in the large scale sale of ESB Power Generation plants. The splitting of the ESB PES business into a number of competing entities would be a good way to promote competition at retail level but it may not be practical to achieve this in the short term. In the absence of such action, an appropriate model to follow would be to set up two independent subsidiaries of an ESB holding company, one for generation (PG) and one for supply (PES).

2.2.3.3 Incremental model of structural change

Competitive markets in Ireland can be pursued at this point in time through the continued implementation of a step by step or incremental model of structural development. This model will complement the competitive structures being put in place for the SEM. This incremental model involves two key strategies, one on the generation side and one on the supply side:

Generation Side: The reduction in ESB’s market share in the generation market to around 40% in an All island market context. This will be achieved by 2010 through the CER – ESB Asset Strategy Agreement of November 2006. The details of this agreement are described in Section 2.2.4 below.

Supply Side: Gradual but significant removal of ESB PES from competitive sectors of the retail electricity market. The first steps in this strategy have been implemented in the market from October 2006, with the CER’s decision to end tariff regulation for a sector of the large industrial market². This decision effectively prevents ESB PES from supplying these customers. As competition develops in the market this policy can be progressively applied.

ESB’s competitive supply company, ESB Independent Energy (ESBIE) can compete openly with independent suppliers for customers in this fully competitive sector of the market. Under this arrangement, the CER believes that tariff regulation can be ended in a step by step manner in various sectors of the market over the next number of years, with ESB PES exiting each sector as the requirement to regulate tariffs ends.

² Full details on this decision can be found in the following paper – Direction to ESB PES on Ending Tariff Regulation for Large Electricity Users. <http://www.cer.ie/cerdocs/cer06206.pdf>

ESB PES would continue to have a Supplier of Last Resort (SoLR) obligation, if the CER required it.

CER Position

The Government should assist in the implementation of the incremental model of market structural reform, through the policies and decisions which will be outlined in the White paper. The CER strategy proposes:

- Establishment of an independent, state owned “not for profit” networks company.
- Progressive reduction in ESB PG share of generation market, through implementation of asset strategy agreement.
- Progressive programme of ESB PES exit from market sectors as competition strengthens.

2.2.4 CER – ESB Asset Strategy Agreement

The CER and ESB have recently agreed an appropriate strategy to reduce ESB’s share in the power generation market to around 40% by 2010³. ESB’s generation portfolio of 15 power plants presently has a market share of around 60% of the generation market, but significantly most of the price setting mid-merit and peaking plant in the market is ESB owned.

This asset strategy agreement which was published by the CER on 29 November 2006, will see ESB close or divest 1,300 MW of existing mi-merit power plant by 2010 and the immediate sale of peaking capacity plant (208 MW) including the sites and associated infrastructure at Rhode and Tawnaghmore. Generation sites such as Shannonbridge (with a gas connection) and Lanesboro will be offered for sale to independent generators for construction and connection of new power plant. Other sites will be identified for sale in a detailed implementation plan which will be agreed between ESB and CER by end June 2007.

In return, ESB will receive authorisation to construct a new 400 MW (approx.) combined cycle gas turbine (CCGT) generation plant at Aghada, Co. Cork. However the Commission has ensured that if sufficient progress is not made by ESB towards the implementation of the package of measures, then ESB will be required to sell the Aghada plant.

Full implementation of the CER – ESB asset strategy agreement will achieve a reduction in the market power of ESB, complementing the competitive structures of the SEM. The asset strategy will ensure that no one single company has any undue level of control over the price setting mid-merit and peaking plant in the country. It will particularly complement the Market Power Mitigation Strategy developed by the

³ Full details on this asset strategy agreement can be found on the CER website, www.cer.ie

Regulatory Authorities (RAs)⁴ and published in April 2006. This mitigation strategy will require generators to bid their true costs into the SEM pool, while directed contracts will be set up for large generators such as ESB which will require them to offer a portion of their electricity into the market at a regulated price. The RAs will also put in place a market monitor to ensure that all generators abide by these rules. It is the CER's belief that this strategy, combined with the CER – ESB Asset Strategy agreement will prevent the occurrence of market power in the new SEM market.

The Commission believes that tangible progress towards the goal of competitive markets has been made in 2006, both with the asset strategy agreement and the decision to end tariff regulation for large industrial customers. This progress will be further built upon through the development of the Single Electricity Market (SEM) and the All Island Energy Market (AIEM).

2.3 Competitive Gas Market Reform

2.3.1 Restructuring of Bord Gáis Éireann

Likewise, reform of the gas market in Ireland is needed in order to ensure that competition can be nurtured and implemented. Ireland's natural gas market is small, with just over 500,000 customers and so it is important that every effort is made to nurture competitive structures in a challenging environment. Indeed the small size of the gas market in Ireland has been identified as a key obstacle to the development of competition in the market.

The Commission believes that options for the restructuring of BGE should now be developed and examined by the Government. The CER favours complete separation of the networks business from the supply business of BGE. Strategic decisions need to be made with regard to the development of a regional gas market for Ireland, the UK and France. This would assist in developing greater levels of competition in the Irish market.

The CER intends to work with market participants in Ireland to examine ways in which the competitive pressures of the UK market can best be utilised. This will include options for improving access for market participants to UK gas volumes.

2.3.2 All Island Gas Market Study and Full Market Opening

The development of an all island gas market will assist in delivering economies of scale in the gas market in Ireland. Legislation should be put in place now to ensure full market opening of the gas market in 2007.

⁴ The Commission for Energy Regulation and the Northern Ireland Authority for Energy Regulation.

CER Position

The Government should develop options for the restructuring of An Bord Gáis Éireann following full market opening in 2007. The Commission favours the retention of network assets in public ownership with complete separation from the gas supply business.

2.4 Regulatory Reform

2.4.1 CER Strategic Objectives

The Mission Statement of the CER is to regulate in a way that maintains a sustainable supply of electricity and natural gas, protects the short term and long term interests of Irish energy customers and is in the economic and competitive interests of Ireland. The CER has set out its strategic plan for the next 5 years, which clearly identifies the role which strong, independent and consistent regulation can have to ensure the development of competitive markets. The independence of the regulator has been a key strength for the CER to date. This independence must be maintained in order to ensure the CER can successfully achieve its objectives.

2.4.2 Regulating Better

The Commission has fully signed up to the implementation of the Government's principles of "Better Regulation", as outlined in the Government's White Paper on the topic. These principles are necessity, effectiveness, proportionality, transparency, accountability and consistency. The Commission continues to implement best regulatory and corporate practice in all of its activities and ensures that each decision which is made is reviewed against the guiding principles of "better regulation."

The CER constantly reviews and analyses its own performance in order to ensure that it is both operating efficiently and that it is providing a quality service to its customers. In this regard, it is the CER's intention to continue to improve its service throughout 2007. Internal provisions have been made to provide a better information service to CER stakeholders. This will include reviewing the consultation and publication procedures and policies of the Commission. The aim of this will be to ensure that those responding to consultations have access to all of the information that they need in a user friendly format.

To date, the Irish gas and electricity markets have been regulated quite heavily, as is often characteristic of emerging markets, particularly with the existence of a large vertically integrated incumbent business. However, it is the CER's belief that as the gas and electricity markets in Ireland mature in the coming years, the necessity for "heavy regulation" will decrease. Market maturity with reduced regulation is already emerging in the retail electricity market, where the CER has recently withdrawn from regulating tariffs for large end users of electricity.

2.4.3 Regulatory Review

As with any regulatory framework, it is important to continually monitor progress in the light of the changing market situation. In this respect, the Commission welcomes the Government's suggestion that a review of the energy regulatory framework should take place shortly after the arrival of SEM. The CER will cooperate and participate fully in this review in order to ensure that the outputs and recommendations of the review position the regulatory structures in Ireland in the strongest position to achieve the Government's key aims of security, sustainability and competitiveness of energy supplies.

This will be an extremely timely review, as it will take place against the background of a new market which will change the way that the whole electricity sector in Ireland conducts its business. The CER agrees with the Government's view that it would be premature to undertake a comprehensive review of the regulatory environment before the establishment of the SEM. Nevertheless it is required and is consistent with the development framework for the AIEM, whose full implementation the CER supports. Critical to the regulatory review however, will be the principle of regulatory independence. The strong and independent regulatory structures which have been built up since the enactment of the Electricity Regulation Act 1999, should not be diminished.

The CER would encourage the Government to consider this regulatory review in the context of the All Island Energy Market Framework Agreement.

Any review of the regulatory framework in the energy sector must be accompanied by a critical assessment of the market structures that regulation operates in. The ability of regulatory policies to achieve their objectives can often be affected by external factors outside the control of the regulator.

2.4.4 Regulation and Pricing

The importance of an independent regulator is particularly clear when making decisions on pricing and tariffs, due to the existence of competing lobbying pressures. It is for this very reason that Governments' felt that it was in the long term interests of the market, the electricity system and ultimately customers, that such pricing responsibility was placed in the hands of independent regulators. It is the regulator's responsibility to make decisions in the long term strategic interest of customers, the market and competition.

The Commission is prepared to continue to regulate prices in the Irish energy sector until the markets are mature enough to arrive at a competitive unregulated end user price. Tariffs should be reflective of the true costs of operating and trading in the market. The correct decisions must continue to be made now. In this respect, it is extremely important that the independence of Regulatory Authorities in carrying out their duties, is not compromised and that the CER has the required resources and expertise (regulatory strength) to achieve its objectives.

CER Position

A regulatory review is welcomed by the CER following the implementation of the Single Electricity Market (SEM) and in the context of the AIEM. This review should focus on positioning appropriate regulatory powers to ensure that the plans for the All island Energy Market and a regional energy market are developed.

Regulatory independence must be maintained and consolidated, while the Commission must have within its powers the necessary strengths to impose and enforce market trading rules. The regulatory review should set as its key objective the creation of the necessary regulatory environment to ensure the development of competitive gas and electricity markets.

3.1 Security, Diversity and Sustainability of Energy Supplies

This section outlines the Commission's response and position with regard to many of the policy targets in relation to security and reliability of supply, diversity of fuel sources and sustainability of energy supply into the future.

3.2 Security of Energy Supply

The Commission welcomes the focus on security of supply outlined in the Green Paper. Security of gas and electricity supply is an issue of significant national economic and social importance and it is only correct that it is recognised as such by the Government.

3.2.1 Security of Electricity Supply

The Commission is committed to ensuring that Ireland's electricity system is adequately secure in order to safeguard the interests of final customers. However, at the same time, security and reliability of supply must be balanced with the cost effective delivery of electricity to customers.

3.2.2 Market Developments in Security of Supply

The development of the SEM will be the single biggest determinant of maintaining and ensuring security of electricity supply in Ireland. The SEM, a key feature of which is the Capacity Payment Mechanism, will create the market conditions to encourage generation investment at the appropriate time and in the correct location in order to meet growth in demand. Moreover, new generation investment as a result of the SEM will improve overall plant efficiency as older, less efficient plant will be moved upwards in the merit order and will be eventually pushed out altogether. It is the Commission's view that the market and its associated rules and mechanisms is the best way of achieving long term, continuous security of electricity supply.

3.2.3 Additional Interconnection

The Government's commitment in relation to additional interconnection between Ireland and its neighbours are also welcomed. The construction of a 500 MW interconnector between Ireland and Britain (East-West Interconnector) will be an extremely useful step forward for the electricity market in Ireland. The CER has been promoting such developments for a number of years in order to reduce the level of insularity in the Irish market. An interconnector between Ireland and Britain, one of the most competitive and efficient markets in Europe, cannot but lead to the promotion of competition in supply markets in Ireland. The CER believes that this

interconnector will keep an important competitive discipline in the market, which will ultimately benefit customers.

Furthermore if Ireland is to be part of the development of a regional energy market, then interconnection with Britain and Northern Ireland will be necessary. Increased interconnection will also assist in ensuring security of supply and system reliability. Export opportunities may become available through increased interconnection which is in the national strategic interest as well as benefiting the companies exporting electricity.

3.2.4 Network Investment

The Green paper outlines the Government's consideration of supporting major strategic energy investment projects up to 2020 through the use of exchequer funding (National Development Plan 2007 – 2013). The CER would encourage the Government to make a decision in favour of this policy (for both network refurbishment and expansion) as soon as possible.

In particular, strategic investments such as the East-West Interconnector, should be prioritised for exchequer funding. Funding infrastructure investment through the national exchequer would reduce the level of network investment costs which has to be recovered through tariffs charged to customers, thereby resulting in lower electricity prices than would otherwise be possible. The CER would strongly support the use of public monies to develop the national electricity and gas infrastructure.

CER Position

The development of the SEM in 2007 will be the most significant mechanism to ensure medium and long term security of electricity supply in Ireland. The CER's role in ensuring security of supply should be consolidated with the necessary regulatory powers in the SEM.

The Government's commitment to additional interconnection is to be welcomed as an important mechanism in assisting the development of competitive markets, improving security of supply as well as a commitment towards developing regional markets. The CER would also support measures to fund such strategic network investments through exchequer funds.

3.2.5 Security of Gas Supplies

Approximately 87% of gas supplied in Ireland is imported from the UK. These gas supplies are relatively secure in the short to medium term particularly in the light of new infrastructure developments in the UK. These have reduced bottlenecks in the transportation system from the North Sea into Britain. Ireland's security of supply situation consequently benefits from this infrastructure investment.

However the Commission favours the development of a longer term strategy to reduce reliance on imported UK gas. This strategy should also develop mechanisms to achieve greater benefits from trading with the competitive UK market. However, the fact that all UK gas coming to Ireland is transported from one exit point (Moffat), means that Ireland is directly affected by decisions made at this exit point. Further options for interconnection to the UK and Europe need to be explored in the longer term, particularly in the context of an all island gas market.

The CER reports annually in its Gas Capacity Statement on forecast supply and demand for the next 5 years. In particular, projects such as the development of the Corrib gas field will lead to increased levels of indigenous gas on the system and a consequential reduction in reliance on UK gas in the coming years. This is to be encouraged and supported. However further significant delays in the Corrib project will lead to the creation of extra costs on the Irish gas market. Delaying Corrib gas beyond 2009, will require additional infrastructure to import gas from the UK to meet demand which will impose significant costs which would otherwise not have been incurred at this point.

Furthermore the CER welcomes proposals by private investors to develop and utilise LNG as an alternative to piped gas. The CER will monitor plans and progress towards the creation of LNG options in Ireland.

Options for strategic gas storage in Ireland should also be explored. The CER is satisfied with the operation to date of the Marathon Storage facility in Kinsale and will continue to monitor its operation and performance.

CER Position

Security of gas supplies need to be explored in an All island context. Additional indigenous gas supplies, increased levels of storage and options for development of LNG should be encouraged. Increased interconnection with the UK and Europe should also be explored in the longer term.

3.3 Fuel Diversity

3.3.1 Fuel Mix in Power Generation

The Commission agrees with the Government's assertion that measures need to be identified now to improve Ireland's fuel mix for power generation. Over-reliance on imported fossil fuels, in particular natural gas is a cause for concern.

The Government should now develop a clear policy on fuel diversity in the Irish generation mix. This comprehensive study should look at all options for the future and establish realistic targets for "desired fuel mix" in power generation by 2020. However at this point, it is likely that promotion of power generation from non gas sources will impose additional costs on the system. An appropriate balance therefore needs to be established. A clear policy framework in this area would assist in defining this balance.

3.3.2 Nuclear Power

The Commission acknowledges the Government's position with regard to the development of nuclear energy as re-stated in the Green Paper.

However the Commission agrees with recommendation 11 of the Joint Oireachtas Committee on Communications, Marine and Natural Resources (June 2006)⁵ that there should now be a full debate on nuclear energy in Ireland.

"The Joint Committee considers it imperative that there should be informed debate on nuclear generated electricity."

3.3.3 Clean Coal Technology

The CER welcomes the Government's position regarding clean coal technology. However further technological development is required before clean coal can be rolled out on a large scale, while mechanisms will need to be put in place to ensure the construction of clean coal plants ahead of gas fired plant. The CER will commit to support these initiatives following the publication of the White paper.

3.3.4 Biomass Co-firing

Furthermore, the Government's suggestions in relation to biomass co-firing at peat stations are also to be welcomed. If the appropriate policy initiatives are in place, Ireland will be in a position to develop significant biomass resources. The Commission welcomes the Government's recent announcement in Budget 2007 of a "top-up" of €80 per hectare on the level of premium offered for the planting of biomass crops. The Government's commitment to increasing the area sown under energy crops from 3,000 hectares to 70,000 hectares is also welcomed by CER. The Government should continue to monitor the success of these "plant and grant" schemes in order to ensure that the correct level of support is arrived at so that biomass production becomes a realistic and viable option. It is important that aids to assist the development of sectors such as the biomass sector are paid directly to the producer and are not included in the price of electricity.

CER Position

Long term strategic decisions need to be made in relation to the reduction of Ireland's reliance on imported fossil fuels. The development of a policy on fuel diversity is an issue of profound importance for the White Paper.

Further initiatives to encourage the entry of clean coal fired plant and biomass co-firing needs to be established. The Commission welcomes recent increases in the level of support available to farmers to plant biomass crops, such as short rotation coppice and miscanthus grass.

⁵ Joint Oireachtas Committee on Communications, Marine and Natural Resources, Seventh Report, Review of Energy, June 2006.

3.4 Renewable and Sustainable Energy Development

3.4.1 Renewable Energy Targets

The Commission believes that the renewables targets which have been outlined in the Green Paper should be critically reviewed based on costs and benefits. The All Island Grid study which is currently being prepared will assist in this process. The White paper should commit to a full study which will quantify the full cost of delivery of 30% electricity consumption from renewables by 2020. Based on the outputs of this study, final decisions on renewable targets should be made.

When the final targets are decided upon, the CER will work through the regulatory structures, with the system operators to put in place appropriate steps to achieve the Government's target, subject to network and planning constraints.

The Commission's decision on Gate 2 connections⁶ for renewable generators places Ireland in a strong position to meet its target of 15% of electricity consumption from renewable sources by 2010. The Commission is satisfied that this target will be met.

3.4.2 CHP Development

The Green paper suggests that the CER carries out an examination of potential administrative and regulatory barriers to becoming a CHP generator. The Commission is not aware of any regulatory barriers in the way of CHP generators. However the CER will discuss this in further detail with the DCMNR following publication of the Government's White Paper and final commitments on CHP.

CER Position

Ireland is in a strong position to meet the Government's first target in relation to renewable generation. Greater analysis is needed on the impact which the second target (30% by 2020) will have on network and system reliability and the cost-base in the Irish electricity market.

The Commission's Group Processing Approach to renewable connections will continue to play an important role in ensuring these targets are met.

⁶ Gate 2 Renewable Generator Connection Application (CER/06/238) can be viewed on the CER website (www.cer.ie).