



30th September 2005

Ref: 24157

Mr. Lorcan Kennedy
North-South Energy Division
Department of Communications, Marine and Natural Resources
29-31 Adelaide Road
Dublin 2

**RE: All-Island Energy Market: Renewable Electricity – A ‘2020 Vision’
Preliminary Consultation Document, July 2005**

Dear Lorcan,

The Commission for Energy Regulation (the Commission) welcomes the publication of the above paper by the Department of Enterprise, Trade and Investment (DETI), Northern Ireland and the Department of Communications, Marine and Natural Resources (DCMNR), Ireland and the opportunity to respond to it. As a member of the Sustainable Energy Working Group (SEWG), a sub-group of the All-Island Energy Market Steering Group, the Commission sees this preliminary, high-level consultation document as a key step in developing an understanding of the role that renewables will play on the island of Ireland.

The objective of this preliminary consultation is *‘to inform and seek stakeholders views on the potential for electricity generated from renewables, the basis for a ‘2020 vision’ and the further work that is needed to produce a joint vision, including policy measures and targets’*. The Commission supports this approach and notes that, given that we are in the preliminary phase of the process, it may be premature to attempt to provide detailed responses to many of the questions asked. The Commission appreciates the value of this stage of the process lies in defining the work and analysis needed to inform key policy decisions and gathering input from a wide range of participants. Therefore the Commission’s response will focus on the context in which this work is being undertaken and the tasks that the Commission believes must now be carried out in order to achieve the stated

objective and identify targets for renewables rather than suggestions as to what any such targets should be.

The Framework document published in November 2004 states that the all-island energy market should...*'provide for competitive, sustainable and reliable markets in electricity and natural gas on the island of Ireland at the minimum cost necessary'*. In addition, it states that ...*'The All-island Energy Market should be capable of meeting the increasing energy requirements of the island in ways that are compatible with national and EU sustainable energy policies and targets. Policies should be developed that encourage greater contributions from renewables, CHP and energy efficiency'*. The Development Programme appended to the Framework document lists 'sustainable energy' as a strategic goal and identifies emissions trading, renewable energy and energy efficiency as key components of that goal. Key outcomes of each of these components listed in the Development Programme include co-operation on wind energy market policy, assessment of the potential for pursuit of complementary support mechanisms for renewable energy technologies, co-operation in the development of wind energy market policy, pursuit of complementary approach to the development of policies on other (non-wind) renewables, harmonisation to the extent possible of policies regarding pass through of costs of carbon and collaboration on proposals focusing on implementation of EU Directives on energy in buildings and energy services.. To this end, the SEWG was established. Once finalised, the 2020 vision for the development and integration of renewables within the all island energy market will feed into the work of the above group.

EU Directive 2001/77/EC identifies the principle drivers for the promotion of renewables as environmental protection and security of supply, social cohesion also being noted. Achievement of Ireland's target under the Kyoto Protocol arising from the EU Burden Sharing Agreement to limit annual green house gas emissions to 13% above 1990 levels by the period 2008 to 2012 will be facilitated partly through the promotion of renewables.¹ Regarding security of supply, increased penetration of renewables on the island will reduce reliance on imported fuels and, in doing so, reduce exposure to international fossil fuel prices.² Other policy measures such as emissions trading, measures to promote energy efficiency in the built environment and the transport sector and energy demand reduction measures will also be instrumental here. In deciding the contribution required from renewables post 2020 in order to meet environmental and security of supply objectives, all available policy instruments must be considered and a thorough analysis carried out to enable policy makers to make informed choices between these alternatives. This will facilitate the attainment of these aims at least cost to the final customer and will, therefore, support competitiveness. The Commission considers that once the contribution required from renewables has been identified, supporting policies in areas such as planning and agriculture should be implemented where required. In addition, government policy on research, development

¹ The Commission notes that the impact of increased levels of intermittent generation on emissions levels from conventional plant must be examined in this context.

² The reduction in capacity contribution with increasing penetration of wind generation should be factored into analysis if the benefits of renewables as regards security of supply.

and demonstration should support the increasing penetration of renewables on the system to appropriate levels.

The Commission welcomes the recognition that a full and detailed techno-economic analysis of the costs and benefits of increased renewable penetration is required in order to inform future target setting. This must include an analysis of both direct and indirect costs and greenhouse gas savings associated with increased levels of renewables on the systems, compared to those related to alternative measures. In the absence of this, suboptimal decisions will be made with resulting impacts on national competitiveness. Such an analysis should include an examination of the following:

- reductions in greenhouse gas emissions associated with increased penetration of renewables, given the impact on emissions from conventional plant running at lower efficiency levels;
- the on going costs associated with existing support mechanisms such as AER schemes I to VI;³
- reductions in the capacity credit due to wind as total installed wind capacity increases;
- the impact on the economics of conventional plant of increased levels of renewables on the system, including impact on bidding behaviours and thus on electricity prices;
- the impact of various policy measures on the economics of renewable plant (eg, emissions trading) and thus the necessity for support/requirement for flexible support mechanisms to take account of such impacts going forward;
- the potential for co-firing with renewable fuel at existing stations versus the requirement for new build;⁴
- the magnitude of wind constraining as installed wind capacity on the system increases;
- system upgrade costs associated with increased renewables penetration; and
- the estimated annual cost to the final electricity customer of various penetration levels.

A comprehensive cost benefit analysis will facilitate informed decision making as to the appropriate targets and support mechanisms. The Commission is of the view that merchant build is the preferred route but where support is required, this should be market based in order to attain value for the final consumer. Consideration should be given to secondary support mechanisms to promote relatively immature technologies. Where existing plant is suited to co-firing with renewable fuel sources, this should be considered. To date Ireland and Northern Ireland have implemented differing support mechanisms as detailed in the preliminary consultation paper. Any distortions that could arise from the continuance of different approaches to supporting renewables post 2020 on the island should be examined.

³ For the period 2003 to 2006 the costs associated with the AER scheme recoverable under the Public Service Obligation levy is €35.219 m.

⁴ Ref: Co-Firing Biomass, Sustainable Energy Ireland

The Commission suggests that a forum similar to the Renewable Energy Development Group (the REDG) with representatives from stakeholders from both Ireland and Northern Ireland should be established to progress the above. This group should be set up at an early date in order to ensure that the challenging timeframe is met. Once in place, a work programme should be agreed. At the outset an assessment of existing studies to ascertain what existing work can be of use for the task at hand should be undertaken. Following this, the completion of an examination of the resource potential of various renewable technologies, future demand estimation and a comprehensive cost benefit analysis to include assessment of both direct and indirect costs of increased renewable penetration and alternative measures such as energy efficiency instruments should be undertaken. An examination of support mechanism options and the costs to the electricity customer of these should be estimated. Recommendations regarding targets should then be made to the DCMNR and DETI.

The Commission has been mindful of the increasing role of renewables in the market in reaching its decision with NIAER regarding the SEM design. The Commission appreciates the on-going co-operation of renewable participants in the detailed design process and considers their input to be invaluable.

The Commission wishes to thank those who compiled the preliminary consultation document. This represents the beginning of a very important work stream that will serve to inform decision making in the area of renewables such that environmental and security of supply objectives are achieved in a cost effective manner that will safeguard competitiveness. The Commission looks forward to working with stakeholders to meet the challenging timeframe.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Regina Finn', with a stylized flourish at the end.

Regina Finn
Commissioner

