

EXECUTIVE SUMMARY AND KEY RECOMMENDATIONS

EXECUTIVE SUMMARY

Ireland's energy policy has progressed significantly since the last in-depth review in 2003. Increases in renewable energy, the replacement of old oil-fired stations by gas-fired generation, and the opening of a large combined heat and power (CHP) plant and two new efficient peat-fired power stations have contributed to the security of electricity supply, while the development of new gas infrastructures, such as the pipeline to the west, have given more areas of Ireland access to gas. With regard to market reform, the transition period from 2000 to 2007 of the Irish electricity market is about to end, with the introduction of a new market framework from November 2007, when the single electricity market covering the entire island becomes effective. Ireland conducted a successful allocation exercise in the first National Allocation Plan (NAP) for the EU Emissions Trading Scheme (EU-ETS), implementing the spirit as well as the letter of the EU directive. In energy research and development (R&D), a survey of Irish energy R&D capabilities has laid the foundations for the development of a sustainable R&D activity focusing on the needs of Irish energy policies. Finally, at the end of 2006, the government published a Green Paper on energy policy, followed by a White Paper published in March 2007. All of these are very commendable developments. The government has recently accelerated the policy development process by taking steps, in all of the major energy policy areas where action is required, towards ensuring that Ireland will have a secure and sustainable energy future. Nevertheless, the Irish government still faces serious challenges.

Energy security and energy prices are becoming major concerns for Ireland, owing to the increasing reliance on gas in the economy and the absence of sufficient domestic reserves. Electricity and gas prices have increased rapidly, giving rise to concerns about the competitiveness of Irish enterprises. To reduce the exposure of the economy to energy price increases, significant efforts have been made by the government to broaden the fuel base and to increase energy efficiency. To preserve fuel diversity, the government decided in 2004 to invest in emissions abatement technology at the Moneypoint coal-fired power station as an alternative to converting it to gas-firing. This decision removed a significant option to reduce greenhouse gas emissions set out in the 2000 National Climate Change Strategy and obliged Ireland to consider alternative approaches to reducing greenhouse gas emissions in order to meet its Kyoto Protocol commitments, including the purchase of additional

allowances through the Protocol's flexible mechanisms. Investigating alternative possibilities to achieve these reductions, such as participation in clean development mechanism (CDM) projects, may result in more cost-effective options for the government, the use of which could support the development of important skills in the area of sustainable energy.

Market reform in Ireland progressed slowly during the transition period, which began in 2000 with the introduction of a regulator and with the initial moves to develop competition. While Ireland still does not have a daily electricity market, and the dominance of the incumbent supplier (the Electricity Supply Board, ESB) has only slightly been reduced, the end of the transition period in the electricity market is now coming closer, with the introduction of the all-island single electricity market (SEM) from November 2007. The SEM will launch a set of fundamental reforms to the Irish electricity market, which were held off until its start. It will be based on a daily market, and an all-island transmission system operator (TSO). Both of these features, together with the further reduction of ESB's dominance, will lay the foundations for increased competition in the electricity market, and will amplify the competitive pressure on the incumbent ESB. The drive towards a more competitive market is also supported by the regulator's decision at the end of 2006 to force divestment of the price-setting plant owned by ESB. Reforms in the gas market have progressed less, with Bord Gáis Éireann (BGE) remaining dominant. Unbundling is planned to coincide with full market opening in July 2007. The regulator will need to make every effort to ensure that the appropriate conditions are in place to facilitate and support competition in the gas market.

Natural gas use is rapidly growing in Ireland, in particular in electricity generation and in the tertiary sector. Considerable investment in natural gas transportation infrastructure has taken place, and more is planned for the future. The government should continue to support the development of the natural gas market by creating an investor-friendly framework, thereby encouraging the entry of competitors to BGE.

Ireland has made good progress in creating a more energy-efficient economy, driven partially by structural change, and partially by real increases in efficiency of use. However, significant challenges remain to reduce the rapid increase of energy consumption in the transport and tertiary sectors, especially the very high dependence on oil. This increase in efficiency has not been sufficient to prevent Ireland's energy demand growing by over 63% between 1990 and 2005. It will be important for the government to continue to focus on further efficiency increases, particularly in the tertiary and transport sectors, over and above those achieved through structural change, and to continue to encourage energy users to become more efficient. Sustainable Energy Ireland (SEI) is the institution created to achieve these goals. It will be necessary to ensure that SEI is appropriately resourced and structured, and able to cope with the challenges it will face in implementing energy efficiency programmes in the coming years.

Following a stop to new wind farms being connected for network safety reasons from 2003 until 2005, a substantial increase in the capacity of wind generation took place in 2006. This increase is expected to continue, owing to very high interest from developers, and the favourable economics of wind generation in Ireland. Building on this commendable development, Ireland's 2006 Energy Policy Green Paper announced ambitious targets of 30% renewables in electricity consumption by 2020. Ireland is also supporting thermal use of renewables in biomass co-firing, solar thermal and biomass heating, as well as the development of biofuels for the Irish transport market. Developing new forms of efficient storage solutions and cost-effective dispatchable renewables capacity will be crucial to the government's ability to deliver its ambitious programme. While pursuing these commendable goals, continued cost-effectiveness of renewables in Ireland should be ensured by the government and the regulator.

In the area of oil and gas production, the full potential of the Irish petroleum province is still subject to doubt, given the absence of a major find. The government has faced difficulties with the local population's acceptance of the Corrib gas development, which has delayed the construction of the onshore elements and thereby the opening of the field. At the same time, production from the Kinsale field has declined further. Although the government has taken important measures to increase the interest of oil and gas developers in Ireland, such as carrying out increased research into its potential for discoveries and making information about this potential available to developers, a stable policy framework is also required. While the current fiscal regime is creating a favourable environment for developers, great care should be taken not to increase the risk for developers at this point in the development of the industry by tightening the rules.

Substantial progress has been made in peat use with the commissioning of two modern, high-efficiency peat-fired power stations, leading to the closure of all the old stations. The latter will eventually have the possibility to convert partially to biomass co-firing, enabling Ireland to increase fuel diversity in electricity generation. Also, substantial investment into the modernisation of the Moneypoint coal-fired plant will be made. These are commendable developments in the fossil-fuel sector, which will ensure diversity of fuel use in the future.

As for R&D, Ireland conducted a survey establishing capabilities and activities in energy R&D in 2004, thus laying the foundations for the development of R&D activities. This is commendable. It will now be important for the government to address the shortcomings found in the survey, to ensure that the Irish R&D institutions are able to contribute as required to address the challenges facing Ireland in the renewables and other energy sectors.

KEY RECOMMENDATIONS

The government of Ireland should:

- ▶ *Continue work on energy policy development and the implementation of the policies suggested in the Energy Policy White Paper, in particular the policies on market reform and the all-island energy market. To achieve these reforms, it will be critical to leave the energy regulator, the Commission for Energy Regulation (CER), as much independence as possible, and to ensure that the capacity of policy making and implementing institutions is increased so as to be able to meet the demands put on them. The development of a road-map for implementation would be useful in this regard.*
- ▶ *Ensure that the demand side is given adequate weight in the policy debate, by focusing resources and communication on increasing efficiency of the Irish economy, and by introducing strict norms and standards. This should include a particular focus on reducing the very high and increasing oil dependence of the Irish economy.*
- ▶ *Focus on the development of grid integration solutions for renewables in Ireland, to enable the high interest in renewables to become reality, while reducing the cost to the electricity consumers associated with the significant increase planned for renewables.*