



Bord Gáis Éireann

Response submission to European Commission's
consultation on the Green Paper "A 2030 framework
for climate and energy policies"

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1.0 Introduction

Bord Gáis Éireann (“BGÉ”) was established in 1976 and is a commercial State body operating in the energy industry. A commercial enterprise majority owned by the Irish State, BGÉ meets its commitments to customers through its two main businesses: Bord Gáis Networks and Bord Gáis Energy. Bord Gáis Networks builds and operates one of the most modern and safe gas networks in the world, connecting all natural gas customers to this network while Bord Gáis Energy is a dual-fuel, all-island business that serves over 775,000 gas and electricity customers with exemplary service at competitive prices. BGÉ, at the direction of government, is progressing the sale of the Bord Gáis Energy business during 2013, leading to full ownership unbundling of its gas transportation business in 2014.

In its current role as a gas network operator and a major dual-fuel energy provider, BGÉ is committed to the transportation, generation and supply of energy in an efficient and sustainable manner and supports the European Union’s (“EU”) development of a framework for climate and energy policies to 2030. Its future role in energy will be limited to gas transportation. The current submission draws on its network and energy supply experience.

The original 2008/9 framework has made significant progress towards achieving the 2020 targets. However, a number of changes have occurred in the European economic and energy landscapes and BGÉ agree that the framework should be revisited with new evidence and views to deliver a sufficiently ambitious 2030 framework.

BGÉ welcomes the opportunity to respond to EU’s consultation on the Green Paper “A 2030 framework for climate and energy policies” and looks forward to viewing the findings of the consultation in the near future.



2.0 Response to Consultation Questions

General

Q1. Which lessons from the 2020 framework of the EU energy system are most important when designing policies for 2030?

- A1. The 2020 framework achieved a number of benefits and provided a platform in which climate and energy policy can begin to transition to the future. When designing policies for the 2030 framework, a further integrated and proportionate approach can strengthen the synergies between climate and energy policies.

The key lesson to be learned from the 2020 framework may be that the ambition of Europe's climate change objective will need to be aligned and coordinated with global frameworks¹. Significant resources must be invested in developing global frameworks if the goal is to maintain the global temperature rise below 2 degrees Celsius. Unilateral action at EU level has much more limited possibilities than an effective global framework. In the near term, many may well argue that a unilateral approach will reduce European competitiveness, with little global impact.

BGE agree that a planned and phased approach to achieving an 80-95% reduction in 2050 is required and sees merit in the Emissions Trading Scheme ("ETS") as a suitable instrument towards achieving decarbonisation. However, it is clear that changes are needed to provide flexibility to the mechanism such that the ETS can adapt to reflect changes in the wider economic and policy environment in a predictable and stable manner. Until such time as the ETS is amended to provide appropriate price signals for low carbon investments in the different sectors, other mechanisms will be needed to stimulate and signal investment to ensure Europe remains on a path to achieving a decarbonised economy.

The low carbon price associated with the ETS has seen a negative effect on the efficiency of electricity production. Due to lower than anticipated carbon prices, coal stations are now replacing gas stations in the order of merit, although gas-fired power stations are 50% more efficient in carbon savings than their coal counterparts. This has allowed emissions production to increase and reduces the effectiveness of climate change policy which aims to achieve decarbonisation.

¹ Notwithstanding the outcome of global negotiations, the EU must look to reduce its dependency on fossil fuel imports and to develop sustainable energy supplies in the long term. To that extent, although the ambition of achieving 80%-95% decarbonisation by 2050 may be reduced, incentives for investment in renewable energy and the conversion of other sectors of the economy to low carbon and sustainable fuel sources are necessary in the long-term.



Targets

Q2. Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States or sectoral), and to what extent should they be legally binding?

A2. BGÉ agrees with the greenhouse gas emissions reduction target for the EU of 40% by 2030 to reinforce the target of 80-95% reduction by 2050. Such a target should be legally-binding at an EU level and should be incorporated into all industries in a phased approach.

BGÉ also agrees that a renewable target is required at a level that will assist the encouragement of greenhouse emissions reduction. Such a target is required until sufficient confidence in the ETS carbon price is achieved to drive investments in the power sector in the short-term and to avoid an investment hiatus for the period post 2020. Consequently, for the period 2020-2030, a renewable target which provides a mechanism to underpin renewable investment will continue to be required in order to underpin investment in the power sector.


Q3. Have there been inconsistencies in the 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

A3. The benefits of the 2020 framework can now transition to achieving the potential 2030 targets through coherent targets that provide flexibility for Member States and the right signals for investment in the right locations to ensure that Europe achieves its ambitious carbon reduction target in the most economic and efficient manner.

An emissions reduction target would be reasonable only if the EU is part of an international commitment to climate change. The EU ETS was stimulated by the Kyoto Protocol to the United Nations Framework Convention on Climate Change but is intended to function independently. Uncertainty in implementing domestic legislation would affect the performance of a global market as the supply of offsets/credits and the related demand would be undermined. Wide scale participation is required to bring long-term predictability to carbon markets and to achieve the specified emissions reduction target.

Q4. Are targets for sub-sectors such as transport and agriculture appropriate and if so which ones? For example, is a renewables target necessary for transport given the targets for CO₂ reductions for passenger cars and light commercial vehicles?

A4. BGÉ feel that the transport sector for passenger cars and light commercial vehicles should be subject to the legally binding CO₂ emission targets as it is a major



contributor to greenhouse gas emissions. This should be an EU wide target such that it stimulates supply side investments and EU wide standards.

The introduction of Compressed Natural Gas (“CNG”) as a transport fuel can increase competitiveness against tradition transport fossil fuels. CNG as a transport fuel improves health and reduces greenhouse gas emissions. CNG is a low-emission fuel that does not contain sulphur or heavy metals. The use of natural gas as a transport fuel can reduce vehicle emissions including Carbon Dioxide (CO₂), Nitrogen Oxide (NO_x) and Particulate Matter (PM).

Biomethane (the renewable form of CNG) as a transport fuel can reduce vehicle emissions significantly further.

Q5. How can targets reflect better the economic viability and degree of maturity of technologies in the 2030 framework?

A5. BGÉ believes that a single and stable ETS will be the long-term driver of the EU’s decarbonisation by 2050. However, the provision of support mechanisms is necessary in the short to medium term until such time as investors and financiers have confidence in the signals provided by the ETS. These supports will not jeopardise the completion of the internal market or the cost of achieving the decarbonisation target provided that they are market based, transparent and available on a non-discriminatory basis (both in terms of technology and investor). In the medium term, such mechanisms will ensure that renewable technology will assist in the transition to decarbonisation through the ETS by 2050.

Q6. How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

A6. The EU energy policy should promote further development of the natural gas market and investment in strategic gas infrastructure. A trend is appearing in which flexible efficient gas-fired power stations are becoming uneconomic to operate. The security of supply attributed to natural gas is threatened due to ETS prices favouring coal and priority grid access for renewables which are promoted by strong support mechanisms.

Natural gas has many advantages – it emits 50% less CO₂ than coal; it is better suited as back-up support for renewable technology; and the world’s natural gas resources are sufficient for another 250 years. The current ETS price is undermining investment in gas supplies and infrastructure. Future policy should assist natural gas to overcome these barriers and should ensure that natural gas will continue to be one of the EU’s primary energy sources for foreseeable future.



Instruments

Q8. How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

A8. Achieving the specified target should be flexible in its approach. The means to achieving the target should be cost-efficient by investing in such technologies where it is most financially beneficial to do so. As the EU is a single market aiming to achieve one emissions reduction target, a consolidated cost reflective solution with sufficient monitoring is the most suitable approach to achieving the climate and energy objectives of the framework.

Q9. How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?

A9. Fragmentation can be best avoided by an approach to setting and monitoring targets which provides flexibility in how Member States meet their individual targets. Given the ambition of the targets, this will stimulate cooperation and trade between Member States to capitalise on the resource efficiencies across the EU. A stable EU ETS price should also underpin this cooperation, ensuring that Member States and investors are incentivised equally to invest efficiently and economically.


Q10. Which measures could be envisaged to make further energy savings most cost-effectively?

A10. The recycling of ETS and carbon tax revenues could be used to support greater success in energy efficiency. Once amended and stabilised, there may be a role for revenues to be attributed to the sector where investments are not as economically obvious or where there is a danger of carbon leakage or energy inefficiency, whereby the policy is not seen to add excessive costs.

Competitiveness and Security of Supply

Q11. Which aspects of the framework for climate and energy policies could be strengthened to promote job creation and growth?

A11. Innovation in climate change technology will promote job creation and also help achieve the 2030 framework target. Job creation will also play a vital role in the EU's economic recovery. A stable investment environment must be maintained and the 'picking of winners' must be avoided. Grant aid in support of job creation that



facilitates innovation which ultimately allows for the market to determine the best solutions should be made available. The recycling of carbon tax revenues once the ETS market has stabilised could also support R&D into new technologies and job creation.

Q14. Should we take into account uncertainty about efforts that other developed countries and economically important developing nations will make in the ongoing international negotiations? If so, how?

A14. From an EU perspective, if addressing climate change is the goal, this is central to success. All countries should be encouraged to support climate and energy policy. Full participation across the globe will lead to improved competitiveness, sustainability and security of supply.

Q15. How can we increase the regulatory certainty for business while building in flexibility to adapt to changing circumstances (eg progress in international climate negotiations and changes in energy markets)?

A15. It is imperative to ensure that the integrity and stability of EU legislation sustains the EU's climate change and energy objectives. Confidence in the regulatory regimes to support investment in energy is essential to ensure coherent well functioning climate and energy markets. Furthermore, the EU should provide a clear transition between timeframes such that transitional targets are signalled sufficiently in advance to provide better regulatory certainty and increase predictability for potential investment out to 2050. This will ensure a means of reducing the risk associated, achieving an acceptable return on investment.

Q16. How can we increase the innovation capacity of the manufacturing industry? Is there a role for the revenues from auctioning of allowances?

A16. BGÉ feel that an appropriate proportion of revenue from auctioning of allowances could be used to support innovation in the manufacturing industry. Once amended and stabilised, expanding the EU ETS to all sectors of the economy will provide incentives for manufacturing industry to invest in low carbon and energy efficient solutions where it is possible and economic to do so. There may be a role for revenues to be attributed to the sector where investments are not as economically obvious or where there is a danger of carbon leakage, whereby the policy is not seen to add excessive costs. The benefits of industry innovation must exceed the required investment for new technology.

Q18. How can we best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (eg through the



development of necessary interconnections) and externally by diversifying energy supply routes?

- A18. A combination of policies and instruments should align to support diversity. This would include a range of technologies and sources of supply in the energy mix and include a deeper penetration of new generation gas. Transportation networks need to be supported to enhance storage and provide the flexibility to facilitate a greater share of renewables in the generation mix.

Capacity and Distributional Aspects

Q19. How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?

- A.19 In meeting its targets, and within the context of Europe's overall global competitiveness, Member States should be incentivised to meet their targets in the most economically efficient manner, which may include trading with other Member States. A single and stable ETS should be the cornerstone in delivering a market for Member States to trade on their cost and resource efficiencies and as such, it is imperative that the EU Commission works to garner confidence in the ETS as soon as possible. In the absence of the ETS, Member States should be obliged to provide detailed cost benefit analysis of their proposed approaches to meeting their targets outlining options considered and options chosen.

Q21. Are new financing instruments or arrangements required to support the new 2030 framework?

- A21. Recognising the goal of the EU ETS to drive low carbon investment across Europe, BGÉ is concerned that there will not be sufficient confidence in the signals provided by the ETS in the short term to drive the necessary investments to achieve the 2030 targets. On that basis, Member States will need flexibility in how they stimulate investment and meet their respective targets. Any such mechanism must be transitional, transparent and based on market principles such that it is in line with the objectives of the EU ETS and the EU policy agenda.