BORD NA MÓNA

BORD NA MÓNA POWERGEN

Submission by Bord na Móna

to the

EU Commission's

GREEN PAPER – *A 2030 framework for climate and energy policies*

Date 2nd July 2013

1.0 Introduction and Background

Bord na Móna very much welcomes the opportunity to respond to the Commission's *GREEN PAPER – A 2030 framework for climate and energy polices.*

Bord na Móna is an integrated utility company with a unique mixture of businesses and experience spanning activities in water, resource recovery and energy, including electricity generation. Bord na Móna's electricity generation assets include windfarms, base-load fossil fuel / biomass units, and distillate fired peaking plants.

Bord na Móna is a participant in the Irish All-Island Single Electricity Market (SEM) for electricity; this market through a combination of focused supports and RES friendly policy instruments saw renewable energy (normalised) deliver 18% of gross electricity consumption (RES-E) in 2011[1] - an increase of over 100% when compared to 2006. Over this period the wholesale price of electricity in Ireland remained relatively unchanged when compared against analogous markets in other Member States[2]. Bord na Móna believes that such rates of decarbonisation can continue to be achieved out to 2030 and beyond provided that the overall 'market eco-system' is sufficiently robust such that a degree of (not absolute) **certainty** is an inherent trait to allow investors deliver the necessary infrastructure and innovation.

In this submission, the key high level messages are summarised below:

[1] SEAI Energy in Ireland – Key Statistics 2012; retrieved from http://www.seai.ie/Publications/Statistics_Publications/EPSSU_Publications/Energy_in_Ireland_Key_Statistics/Energy_in_Ireland_Key_Statistics_2012.pdf

[2] SEAI Electricity and Gas Prices in Ireland, June 2012; retrieved from http://www.seai.ie/Publications/Statistics_Publications/EPSSU_Publications/Price_Directive_2nd_Semester_2011_.pdf

- Bord na Móna supports the 2050 decarbonisation target and believes that interim measures out to 2030 are necessary to deliver this trajectory. Reasonable progress has been achieved under the 2020 program
- Bord na Móna fundamentally supports the EU- ETS as the foundation (and ultimately the sole instrument) for driving low carbon investment in Europe
- It is evident that the ETS will not provide 'financeable' investment signals for RES infrastructure during the next decade
- 'RES targets' deliver RES infrastructure – Bord na Móna would favour RES targets which are EU wide, market based and aligned with the ETS
- There should not be any retrospective adjustments or modifications to existing RES support schemes and Member States (MS) should retain flexibility regarding the suitability of future support schemes to meet ongoing targets
- Capacity adequacy and system flexibility must be remunerated in the new market design
- Investment in transmission & distribution infrastructure is critical to decarbonising the power sector
- RES technologies should compete in the market when sufficiently 'mature' but this maturity is a function of deployment and not simply age
- Energy Efficiency (EE) targets are fundamentally different from GHG and RES targets as they do not discriminate in favour of decarbonisation – Bord na Móna does not support binding EE targets post 2020
- Evidence suggests that indigenous RES deployment can contribute positively to Security of Supply concerns
- After adhering to all safety and environmental concerns policy instruments which enable the continued and future use of conventional and unconventional indigenous energy sources should be examined
- Europe must show leadership at the global climate mitigation negotiations but must not impose disproportionate burdens on European industry or consumers
- Policies and instruments that further enhance MS flexibilities to meet targets should be encouraged and facilitated – in particular MS to MS trading and development of projects which physically deliver RES from one area of the Union to another

2.0 The Current EU policy framework and what has been achieved

Bord na Móna would be of the opinion that reasonable progress has been achieved when the 2020 targets are considered in the round. However, on closer scrutiny there are aspects of the current 2020 policy instruments which have either not delivered as expected (EU-ETS) or resulted in some undesirable unintended consequences (EED 'targets') *vida infra*.

2.1 The 20% GHG reduction target and implementing measures

Bord na Móna fundamentally supports the EU- ETS as the foundation for driving low carbon investment in Europe. Bord na Móna favours a single, credible and robust price for carbon - today, in 2020 & beyond, 'delivered' by the ETS. However, and notwithstanding the 'back-loading' amendments and the proposed 'structural reforms' including an amendment of the linear reduction factor, we do not believe that the cost of EUAs in the early to mid years of the 2020s will be sufficient to prevent a RES investment hiatus. The logic for this assumption is that while the ETS mechanism should in theory deliver sound market signals, the combined effect of excess nascent allowances and the impact of the economic crisis has in effect knocked the ETS out of the 'modelled' steady state equilibrium required to deliver 'low carbon investment signals'. RES investment therefore needs an interim instrument to provide the necessary investor confidence (degree of certainty) which the ETS is not capable of providing in the period covered by this Green Paper, please see section 2.3 below.

As regards the ETS Bord na Móna would be in favour of a 'stabilised', i.e. proper functioning and truly cost reflective ETS being extended to other sectors of the general economy.

2.2. The renewable energy target and implementing measures

The evidence is incontestable that 'RES targets' deliver RES infrastructure. While Bord na Móna would prefer a single market 'carbon' price signal; being a participant in a competitive energy market we face having to make pragmatic decisions on a daily basis and have reached the conclusion that in the time period out to 2030 the required RES infrastructure to meet the 2050 trajectory will not be delivered in the absence of formal RES targets. We appreciate that having 'competing instruments' may result in a degree of incoherence, see below the subsection on EE targets, and therefore suggest the proposed post 2020 RES targets be modified with respect to those in place and operating today. In particular, it may be advisable to construct interim RES targets within an EU wide market based mechanism – such an approach, while providing developers with the necessary investment signals, ensures 'least cost' delivery and importantly has the potential to be merged or migrated into the ETS when it is sufficiently robust to provide the sole signal for low carbon investment. This ultimate transition of the post 2020 interim RES targets/mechanism into a single market instrument (ETS) also avoids the potential for a repeat of the current 'cliff-edge' debate at the end of the next decade.

While noting that RES targets are distinct from RES support schemes, Bord na Móna, is, for the avoidance of doubt, steadfast in its belief that there should not be any retrospective adjustments or modifications to RES support schemes.

The Green Paper alludes to challenges of integrating renewables into the EU's electricity system in a way that deals with intermittency; this raises a number of issues including generation adequacy, remuneration for flexibility and investments in transmission and distribution grids. Bord na Móna has previously stated in its response to the Commission's recent consultation on "Generation Adequacy, Capacity Mechanisms and the Internal Market in Electricity". Capacity Remuneration Mechanisms (CRMs) are fundamentally compatible with the Internal Energy Market and existing regulations. Depending on design and trading rules, it is clear to us that CRMs can be constructed to comply with the internal electricity market, in particular where they are a core feature of market design, as in the Single Electricity Market (SEM) in Ireland. CRMs are designed to provide generation adequacy. However, plant flexibility to support the high penetration of variable generation is a different characteristic and must be addressed separately. In principle the two mechanisms should not overlap. Clarity on the distinction between 'generation adequacy' and 'flexibility' is necessary. The former ensures that there is sufficient generation (megawatts) in a market to meet demand at any one time and in certain scenarios.

Capacity mechanisms are not, nor should they be, technology specific. However the need for plant flexibility will become an integral service feature of the operation of systems with high penetrations of variable generation in the future. The incentivisation of this service will be crucial in light of existing low carbon and renewable objectives. The capability of a CRM to provide both capacity and sufficient flexibility for a system with significant levels of variable generation is not advisable.

Investment in transmission & distribution infrastructure is critical to decarbonising the power sector, as well as facilitating trade between Member States and in the long run will be a key component in driving costs down for consumers.

Finally, while Bord na Móna can agree in principle that support schemes for 'mature' RES should be phased out in a controlled manner over time, it is import to perhaps state the obvious that a technology does not become 'mature' without sufficient deployment. In the absence of post 2020 RES targets it has been argued that a non-functioning ETS will result in an investment hiatus. This outcome, as well as failing to meet the 2050 decarbonisation trajectory, also has the potential to cannibalise developing efficiencies in the RES supply chain pushing up establishment costs (creating a negative feedback loop) which perversely prolongs the period of time for which RES support schemes are required to deliver infrastructure.

2.3 The energy savings target and implementing measures

Of the three component targets in the 20/20/20 package the energy saving or energy efficiency (EE) sub-target is deficient in a key characteristic which is shared by both the GHG and RES targets. Unlike the latter two, EE targets do not discriminate in favour of decarbonisation – if EU energy policy can be summarised as an ambition to decarbonise the economy by 2050 then EE targets are by design, at least sub-optimal and in some instances can lead to perverse outcomes – locking in 'carbon' following incentivised investment in a nominally efficient fossil based technology, in the RES-T and in particular the RES-H sectors.

Bord na Móna supports the call to re-evaluate the anarchic assignment of a Primary Conversion Factor of 2.5 for electricity.

There are also negative secondary impacts of indiscriminately incentivsing EE including the well documented impact on ETS prices and undermining the viability of RES-E investments.

Bord na Móna therefore does not see how indiscriminate EE targets post 2020 can positively contribute to the 2050 decarbonisation goal.

2.4 Security of supply and affordability of energy in the internal energy market

While the energy trilemma is typically described in terms of sustainability, competitiveness and security of supply each of which are portrayed as being mutually independently of each other – there is growing evidence to suggest that the deployment of RES which as well as progressing the sustainanability/decarbonisation agenda can also contribute to Security of Supply requirements.

The Sustainable Energy Authority of Ireland (SEAI) reported[3] that during 2008 – 2011 there was a 35% increase in indigenous RES production in Ireland and a commensurate 19% reduction in imported energy (gross ktoe) over the same period. Again Bord na Móna believes that this positive correlation and momentum could be lost if the forewarned RES investment hiatus is allowed to develop in the period immediately post 2020.

The question of competitiveness is in effect a global question and the European Union will undoubtedly need to show leadership on the word stage at the forthcoming negotiations to secure agreement on climate mitigation. But, it is also imperative that the EU not impose costs on European industry and consumers which are not reciprocated across other industrialised and industrialising countries.

With respect to European competitiveness the shift to a low carbon economy should deliver long term benefits for EU Member State economies. However, it must be

[3] Op. cit. at footnote 1 above, pp 21

recognised that the journey to decarbonisation will incur significant costs in the short to medium term. It is therefore incumbent that policy makers design instruments which minimise these costs by, in the first instance, providing Member States with sufficient flexibilities to decide how best to meet relevant targets and trajectories. This acknowledges the principle that Member States should be able to 'trade' with other Member States to meet targets or by investing in other Member States where it may be more economical to deliver low carbon technological solutions. These enhanced 'flexibilities' should be built on the provisions currently provided in the Effort Sharing Decision and should also go beyond the co-operation mechanisms provided for in the Renewables Directive (Directive 2009/28/EC). In particular the Commission as well as the other European legislative bodies, should support Member States attempting to develop infrastructure to facilitate the physical flow of RES energy from one part of the Union to another. This 'support' could take the form of ensuring that legal, consenting and administrative burdens are minimised. Ultimately, the aim of the Commission should be to realise the opportunity to trade between Member States.

Bord na Móna supports in principle the implementation of the Target Model by 2014 (2016 in the case of the island of Ireland). However, as the theme of this submission could be broadly summarised as arguing that 'uncertainty in energy policy stymies progress by eroding investor confidence', Bord na Móna is concerned that when the Target model is examined in the light of ETS structural reforms, State Aid modernisation, Capacity Remuneration considerations and developments on Renewable supports – there is a genuine fear that this quantum of change and the associated uncertainty will neuter investment signals, derail the decarbonisation trajectory and even threaten security of supply in certain European countries.

This paper, has already stated a position on the ETS, CRMs and RES targets – noting that it is import to distinguish between RES targets and RES supports, but again reiterates the need for the proposed Target Model design to value and remunerate capacity adequacy and system flexibility as distinct and separate 'products' in the internal market as the European power system undergoes a paradigm shift.

Bord na Móna would be broadly supportive, assuming full compliance with environmental and H&S regulations, of policies and instruments which enable the continued and future use of conventional and unconventional indigenous energy sources.

Finally, while acknowledging that support mechanisms are distinct from RES targets, two principles are recommended. Firstly, retroactive changes to support schemes must be avoided as this would obviously destroy investor confidence. Secondly, and notwithstanding the earlier proposition that mature RES technologies should stand unsupported in the market, the decision as to when a RES technology reaches its proverbial age of majority should be left in the hands of the Member State, who may have specific targets to achieve and deem certain supports as being a cost effective way of meeting these objectives.

3.0 Conclusion

Bord na Móna acknowledges the success of European energy and climate policy in the period out to 2020. Bord na Móna supports the ETS as the main and ultimately the sole driver for decarbonisation. However, without additional policy drivers in the interim to 2030, ie binding RES targets (which also directly benefit security of supply and competitiveness through innovation), it is likely that there will be an infrastructure hiatus as investors will not have the necessary confidence to bank RES projects.

EE targets can be distinguished from RES and GHG reduction targets in that they do not discriminate in favour of the decarbonisation agenda and therefore we believe that EE targets should not be binding post 2020.

The paradigm shift in the power system which is being driven by decarbonisation will require that new ‘products’ remunerate market participants - capacity mechanisms for generation adequacy and flexibility payments for system services.

MS flexibility in meeting targets should be enhanced – in particular MS – MS trading and the joint development of critical infrastructure to physically deliver RES should be encouraged, facilitated and accommodated at a political level in Europe

For and on behalf of

Bord na Móna

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