

Energy Ireland Speech

Minister Rabbitte in a wide-ranging Energy conference address

Croke Park, Dublin 1 June 2011

Chairman (Pierce) - thank you for your warm welcome.

I am delighted to be with you this morning and to have the opportunity to deliver this address at this, the fifteenth Energy Ireland event – and my first as Energy Minister.

The coming years will present us with many challenges – economic and social. Providing secure energy at a reasonable cost is one of them.

It is essential that, together, we identify the best energy solutions for this country which enhance security of supply, reduce our dependence on imported fossil fuels, reduce our carbon footprint and, of course, minimise costs for all consumers.

The changed economic backdrop requires us to take stock of energy policy directions and ensure that we set the best course for the period ahead.

Nevertheless, despite the current economic situation, the overriding objectives of Irish energy policy are well established - security of supply, competitiveness and sustainability will continue to be the pillars of energy policy. These are the overall objectives and they resonate completely with EU energy policy objectives.

Whereas these are the consistent goals of energy policy, the focus now must be firmly on delivery. In particular, the delivery of the vital energy infrastructure projects to underpin security of supply. This is in the best interests of every citizen of this country and this is a key message that I want to deliver today.

I firstly wish to address security of supply and infrastructure development and then turn to the state ownership of energy companies; competitiveness & efficiency; sustainability; and finally touch on our place in the wider European energy market.

Secure energy supplies & infrastructure

The importance of a secure energy supply has become central as the geo political turmoil in the Middle East and North Africa lead to concerns about oil prices and oil security of supply. Recent gas supply disputes between Russia and the Ukraine have also threatened gas supplies to Europe. In the longer term, the policy shift away from nuclear power in both Japan and Germany suggests demand for gas will become more acute.

The current reality is that we are heavily dependent on a single source of gas supply and our electrical interconnection is still limited. We are also heavily reliant on gas for the generation of electricity – a reliance that is set to remain for some time as gas is the fuel of choice while we we build our renewable capacity.

The delivery of key energy infrastructure is critical. The East West electricity interconnector between Ireland and the UK will improve security of supply, as well as increasing competition and assisting in achieving our ambitious renewable targets. The project will be completed by the end of next year.

The introduction of the Single Electricity Market in 2007 has improved security and reliability of supply and provided for integrated system planning leading to a more robust infrastructure on the island. Similarly, the introduction of the Common Arrangements for Gas with the North next year will enhance security of gas supply on the island.

Another priority for my Department is to facilitate, wherever possible, the commercial development of gas storage facilities. Following a public consultation period on the regulatory options for offshore commercial gas storage work is now underway in my Department on the drafting of legislative proposals. It is my intention, over the coming months, to seek Government approval for the drafting and publication of a Bill to provide an appropriate regulatory framework.

The Government fully endorses the strategic national importance of investing in Ireland's electricity transmission infrastructure. EirGrid's national grid development strategy "GRID 25" is of key importance. Development of the high voltage electricity grid is critical to economic recovery, security of supply, competitiveness and the realisation of our renewable electricity targets.

It has been argued elsewhere that the severe step down in economic activity ought to result in the reining in of investment in this area. It is true that the contraction of the economy had been dramatic but it is also true that this type of investment plan can take as much as a decade to deliver. Therefore, the current economic downturn does not in any way diminish the need to complete, for example, the North-South electricity link from Meath to Tyrone. It is a key strategic project for economies and consumers, North and South and is critical to ensuring energy supply adequacy on the island of Ireland. It is also very important for the effective operation of the Single Electricity Market. It is an essential investment in the interests of both economies and all energy consumers and I am determined to see it delivered.

Indeed the absence of the second North-South electricity interconnector is imposing significant costs on electricity generators and consumers on both sides of the border. These costs are in the region of €20million to €30 million each year and are set to increase every year the interconnector is not in place.

The Programme for Government commits to the establishment of an independent international expert commission to review the case for, and cost of, undergrounding all or part of the Meath-Tyrone line. I will be shortly announcing the establishment of this expert commission.

We are all aware of the difficulties in getting planning consent for infrastructure projects and the delays that can result due to local concerns. Indeed, this a Europe-wide phenomenon. I believe there is a considerable challenge for all of us to put a convincing argument to the general public that infrastructure development is necessary to provide essential services such as energy, water and communications.

Energy projects of national importance are absolutely vital to ensure secure supplies of energy.

Utilisation of gas from the Corrib field is of critical strategic importance for the security of our energy supply. It will reduce our reliance on gas imports and encourage further exploration in our waters.

I look forward to the completion of the remaining elements of the construction phase of the project and to the commencement of the production of gas.

At peak production Corrib will provide over 60% of Ireland's natural gas needs – this underlines the strategic importance of the project.

More generally in the context of Ireland's potential as a producer of oil and gas, the level of exploration activity in the Irish offshore up to now has been relatively low. To successfully attract a greater share of mobile international exploration investment to Ireland, we need a number of basic requirements.

Firstly, we must maintain a realistic tax regime that reflects our relative attractiveness as a place to invest in petroleum exploration.

Secondly, we need an approach to licensing that is designed to attract new companies to Ireland and to encourage those companies already here to increase their activity levels.

The 2011 Atlantic Margin Licensing Round, which closed yesterday, is an initiative designed to achieve this. While it is very early days in terms of evaluating the applications received under the Round, I welcome the fact that a total of 15 applications have been received. This is the largest number of applications ever received in a single licensing round in Ireland. I also welcome the fact that applications have been made by companies not currently active in the Irish offshore, together with companies already involved in existing exploration licences. I am confident that this licensing round will bring a new momentum to the level of exploration activity in the Irish offshore

The third and final requirement I would point to is a regulatory framework that is appropriate in terms of its transparency and effectiveness.

State energy companies

The importance of the electricity and gas infrastructure and supply chain to economic and social development cannot be emphasised strongly enough. It is encapsulated in the often quoted expression of "keeping the lights on". Electricity and gas are the lifeblood of economic production whether in the high tech ICT sector, the employment intensive services sector and indigenous sectors such as farming. They are also fundamental to key social services such as health and education.

Because Ireland has such a reliable and modern electricity and gas infrastructure we almost take it for granted. We must however always remember that the creation of

modern and reliable energy networks system did not happen by accident. It arose from extensive and well executed investment by State owned companies, notably the ESB and Bord Gais. These investments were funded without recourse to the taxpayer but on the back of well run and highly profitable State Companies which have garnered the trust of the capital markets to enable them to raise the necessary funding.

Good regulation and professional management and operation of the transmission network by EirGrid has further contributed to our excellent networks infrastructure and the introduction of strong competition in the generation and supply business. The overall outcome is a modern electricity and gas sector and an evolution to average EU prices from a position where Ireland used to be well in excess of the EU average.

The importance of the electricity and gas sectors to economic and social development place the sectors in a unique position in the context of public policy and the national interest. Important issues in these sectors will fall to be addressed by the Government in the medium term. These arise in part from the Report on the Sale of State Assets, but more significantly, from EU legislative requirements. We must prepare for the development over time of a pan European energy market served by interconnection. Ireland will be a small part of very large European regional electricity and gas market. This inevitable development must strongly inform energy policy, including that relating to ownership and structure of State Energy Companies.

It is my own view that given the importance of the sector to the very economic and social functioning of the State that the State must continue to have a strong and direct presence in generation; networks and supply. This must be done in a way that protects overall economic competitiveness and does not deter private sector involvement in generation and supply.

I do not, however, wish to see a situation where Ireland would be unduly dependent on foreign owned energy companies in a situation where Ireland would be a small component of a larger European market. This approach does not preclude extracting value from the strong and profitable State Companies that we have built. The process of extracting such value and indeed implementation of any other structural change within the State energy sector must however meet the simple test that they are in the public interest in its widest sense.

Competitiveness

One of the fundamental objectives of energy policy is competitiveness of energy supply for the economy and society. The Government recognises that the cost of energy in Ireland is a key element in the competitiveness mix. In addition, many domestic consumers are now struggling to pay their energy utility bills.

Irish electricity prices were for many years above the EU average. This was primarily due to our high dependence on imported fossil fuels, particularly gas. Recognising the concerns of indigenous business and inward investment community, a number of measures to mitigate the cost of energy have been put in place in recent years.

These measures, together with the drive for more, and better, competition in electricity and gas markets have had significant effects. Customers are availing of the

benefits of value and choice by shopping around for alternative suppliers.

Analysis by the SEAI show continued convergence in Irish electricity and gas prices towards the EU average. This is a very welcome development.

However, in recent months, global wholesale gas prices have been trending significantly upwards. This has implications for both our electricity and gas prices in view of our high dependence on gas for power generation.

The Government is concerned at the impact on consumers and on the economy, and - whilst acknowledging the CER has a professional job to do – I am sure that the regulator is similarly aware.

The Government remains firmly committed to increasing competition as the best means of exerting downward pressure on gas and electricity prices.

Of course, most commentators predict that energy prices are set to increase over time. For that reason alone, we must focus on energy efficiency measures.

You will aware of the Jobs Initiative announced last month by Minister Noonan. As part of this initiative I launched “Better Energy: The National Upgrade Programme” which is providing an additional €30 million for energy efficiency initiatives this year. This announcement marks an important milestone in the achievement of our national energy efficiency targets. The scheme will generate 2,000 additional jobs in the economy, and should bring the total to about 6000 jobs and, in the full year, a spend of 100 million Euros.

I will be publishing a new National Energy Efficiency Action Plan hopefully before the August recess. This will set out the measures which we will take to deliver on our targets in line with the Commission’s ambition.

I welcome the positive results of the recently published smart metering electricity trials by the CER.

Smart Metering technology heralds a step change in the way both energy demand and costs can be managed. Improving energy efficiency and keeping energy costs down are key imperatives in the drive to improve competitiveness and support jobs. I look forward to the results of the gas smart metering trials and the consultation to be carried out by the CER later this year.

In mentioning the CER I would like to take this opportunity to say that I have appointed Dermot Nolan to succeed Michael Tutty as Chair of the Commission for Energy Regulation. I would like to pay tribute to Michael for his contribution over the years and I look forward to working with Dermot

Sustainable Energy

Turning now to sustainable energy, I wish to confirm that the Government is committed to deliver 16% of all our energy from renewable sources by 2020. This is consistent with delivery of 40% renewable electricity, 12% renewable heat and 10%

renewable transport.

Renewable energy will play a key role in developing Ireland's energy future. It will contribute to each of our policy goals of secure, clean and affordable energy.

I referred earlier to the importance of implementing the strategies developed in "GRID 25" and ensuring that the grid reinforcements are built in time to facilitate the build out of the renewable projects.

The recent spike in gas prices show that it is wrong to predicate policy on the availability of volatile imported fossil fuels. Studies by both EirGrid and SEAI have also indicated that wind generation does not adversely impact on electricity prices.

It is vitally important that we secure the State Aids clearance for the REFIT system to allow the next set of projects to secure financing. I have requested my Department to prioritise the delivery of this and am optimistic that it can be finalised within the next couple of months.

A regional approach

We will continue to work with other jurisdictions to develop our energy infrastructure and resources. A regional approach makes good sense and underpins our security of supply. As I mentioned, the All-Island Single Electricity Market is operating to plan since its establishment in 2007 and the Common Arrangements for Gas with Northern Ireland will be in place next year.

Regional energy cooperation with our near neighbours is also being conducted through the energy workstreams of the British Irish Council.

We are working closely with our colleagues in Northern Ireland and Scotland on the ISLES project which is looking at the feasibility of offshore transmission links between the jurisdictions. Early results from the project look positive and I am looking forward to seeing the completed report later this year.

We are also working with the UK Government and devolved administrations in the two energy workstreams under the British Irish Council (BIC) - Energy Infrastructure and Ocean Energy technologies. I will be attending a BIC Summit with the Taoiseach in London later this month to progress the energy infrastructure workstream.

We are also involved, with nine other countries, in the North Seas Offshore Grid Initiative which is looking at ways to develop a North Seas infrastructure that can deliver greater interconnection between the markets and facilitate the development of offshore wind in the region.

Over time, I believe there is real potential to develop a renewable electricity export market. This is especially so in the context of the regional European market which I referred to earlier.

Market integration is now a key policy objective for Europe. We are moving towards a regional European market for electricity and gas through our involvement with the

France-UK-Ireland (FUI) region. This is a continuation of the process of regionalisation that resulted in the Single Electricity Market on this island.

Conclusion

In this address I have endeavoured to give you an overview of the key issues and challenges we face in the energy sector.

Given the dramatic change to the economic backdrop, both in Ireland and internationally, now is a good time to reassess our energy policy directions.

With that in mind, the 2007 Energy White Paper will be reviewed over the coming months in consultation with stakeholders. It is my intention that a new energy policy framework will be published early in 2012. The new 2012-2030 framework will take account of developments over the past few years since publication of the 2007 White Paper.

The new policy will also be informed by the outcome of the in-depth review of Ireland's energy policy to be carried out by the International Energy Agency in late September. (the previous IEA review was carried out in 2007). The IEA review will be wide-ranging and thorough. It will include a detailed assessment of the efficiency of the Irish electricity and gas sectors, taking due account of the EU regulatory context for these sectors.

As I said in my opening remarks, the overriding objectives of Irish energy policy remain consistent - security of supply, competitiveness and sustainability will continue to be the pillars of energy policy.

Implementation and delivery will be central to the new Energy Framework – the challenge of delivery is a collective challenge for all of us.

I do not underestimate the formidable challenges that lie ahead. The Government will play its part in leading and driving the agenda. The objective for us all must be to achieve a secure, sustainable and affordable long-term future for energy in Ireland.

I wish you well as you discuss many of these important issues over the next two days.

Thank You

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