



**Ibec Submission to
Consultation on draft
Guidelines on
environmental and
energy aid for 2014-2020**

14 February, 2014

Ibec is the largest business representative organisation in Ireland: we speak for over 7000 member companies across a range of industrial, commercial and non-profit sectors. Ibec represents Irish business; home grown, multinational, big and small, spanning every sector of the economy. The organisation and its sector associations strive for business conditions that enable economic growth, underpinned by a secure, affordable and sustainable energy policy framework. Given the diverse views of our members on some of the issues raised, the scope of this submission is focused on areas in which a broad consensus can be reached.

Introduction

This response focuses on the energy and environment aspects of the Commission's consultation. EU energy/climate policy is at a critical juncture – a delicate balance is required to deliver the framework and energy infrastructure to meet our ambitious short and long term policy objectives (the completion of the European Target Model in the short term, and *Roadmap 2050* in the long term). Roadmap 2050 and the policy instruments that underpin it present opportunities. However, a balanced approach in developing a low-carbon economy while providing energy security and adhering to environmental and economic goals of the European Union (EU) is essential.

The means of fulfilling a low-carbon future is well documented and will require greater levels of physical interconnections, increased use of demand side technologies, regionalised system operation and mechanisms to foster and nurture innovative technologies.

Energy and Environment State aid guidelines will provide clarity and facilitate a holistic view of climate and energy policies across the EU. However, they should avoid being overly prescriptive and instead encourage Member States to strongly adhere to the Guidelines as indicative parameters that should be followed when possible. Unique national energy mixes will require varied policy responses, such as market interventions to support generation adequacy and renewable technologies – as well as exemptions for certain categories of users to offset the cost of policies when necessary.

In devising these guidelines, we ask the Commission to consider the importance of security of supply, and account for the instruments that may be required as intrinsic and legitimate to the energy market structure.

Generation adequacy

Single Electricity Market

Mindful that the guidelines seek to clarify how State aid rules apply to aid for energy and environment policies and instruments, we consider that it is necessary to ensure that the guidelines do not preclude legitimate market design options that may incorporate capacity mechanisms.

Section 2(b)(vii) of the draft guidance document stipulates that aid in the form of capacity payment mechanism (CPM) should be notifiable, subject to a threshold. It also argues that CPMs should always require explicit justification as state aid, and that they should have a built-in "sunset clause", effectively delivering a price of zero after a period of years. Arguably, this constitutes EU-wide guidance for the 'acceptable' design of national electricity markets. As outlined below in the Appendix, certain characteristics of the wholesale electricity market on the island of Ireland are almost unique within the European Union, and the market design has incorporated from its inception a capacity mechanism that demonstrably is not state aid. Changes to the market design may be required to comply with the European target Model, but the inclusion of a redesigned CPM need not involve state aid.

Sections 5.9.1 and 5.9.2 of the consultation suggest that once capacity adequacy is achieved, the Member State should clearly demonstrate the reasons why the market cannot deliver adequate capacity in the absence of continued intervention. In the case of the All-Island SEM, the removal of CPM at that point would impact on revenue adequacy, resulting in the closure of existing capacity and causing a capacity shortage. However, since the scheme does not constitute state aid, this is a secondary issue. It should be for the regulators on the island of Ireland to determine the appropriate

level of generation capacity, supplemented by interconnection and DSM, to deliver the required level of supply security.

The reference in paragraph 24 to limiting the duration of certain schemes to four years or less should in any case not apply to capacity payment mechanisms, as such a short timescale will not provide the long term confidence necessary to facilitate investment.

Renewable Energy Sources

Support for renewable energy sources is dealt with in section 5.2, and section 5.7 provides possibilities to compensate energy-intensive industries are chiefly exposed to carbon leakage on foot of renewables supports.

- The increasing competitiveness and market penetration of many renewable energy sources underline the decreasing levels of support needed for maturing technologies (deployed technologies). While it is clear that a robust approach is needed to assess whether a technology can be considered 'deployed' or 'less deployed', an EU-wide assessment may fail to consider the most appropriate requirements of one Member State (compared to another) requiring more time and support for resources to reach technical and commercial maturity. A flexible, technology neutral approach is necessary for each Member State's existing renewables targets and ability to facilitate the development of certain types of renewable resources.¹
- Technology neutral bidding procedures as outlined in section 5.2(l) are to be welcomed. However the prescriptive list of conditions could in effect deviate from the reality of the situation (i.e. projects being at varying stages of development), and may endanger the development of deployed technologies.
- The guidelines should avoid an overly prescriptive approach on mix between investment aid and operating aid - this should be a matter for the national authorities.
- The draft guidelines favour feed in premiums for supporting renewables but it is arguable that REFITs (whether floor price or fixed price) and CfDs may be a more appropriate tool in cases where wholesale market prices may be distorted by the deployment of renewables.
- The proposed implementation deadline in section 7 of the draft guidelines does not provide the necessary signals for investment: a developer is unlikely to accept a risk that a Member State may implement a change that results in a 12 month window to change a scheme. In order to prevent the perverse effect of stymying investment a fixed date of 3 years from the entry into force of the guidelines would be more sensible.

Exemptions for renewables and other energy support schemes

Section 5.7 focuses on exemptions for certain sectors at risk of relocating outside of EU. The contribution of industry to economic growth and job creation/retention should be considered when granting exemptions. The proposed criteria for granting exemptions mirrors the criteria used in the EU ETS (10% trade intensity and 5% gross value added of production costs) – Member States will be restricted to only a limited group of sectors meeting those criteria and may hinder the ability of Member States to support when required.

¹ Energy Lending Criteria used by the European Investment Bank (European Investment Bank, 2013) www.eib.org/attachments/strategies/eib_energy_lending_criteria_en.pdf

Appendix

The CPM in the All-Island Electricity Market is a fixed revenue system whereby generators are paid regulated quantities (capacity payments) of money for providing available generation capacity to the market. The money is sourced by capacity charges levied on all suppliers that purchase energy from the pool. The core of the CPM takes the form of a fixed annual sum of money, called the Annual Capacity Payments Sum which is re-calculated each year based on forecast peak demand.

The intention, and effect, of the market design has been to provide a stable regime for a small, relatively isolated island system with certain inbuilt safeguards both for end users and investors. It is important to note that the existing CPM in the all-island electricity market is not an 'add on' to address market failure (perceived or otherwise) but rather an inherent and deliberate component incorporated into the market design.² Access to the CPM is not restricted to generators on the island: interconnector shippers from Britain and demand side participants (consumers) can also avail of the scheme.

The Commission will be aware that a major market re-design project is currently under way to ensure that the SEM becomes fully compliant with the European Target Model by 2016. We consider that the regulatory authorities in Ireland and Northern Ireland should have the option, rather than the obligation, of choosing an energy-only market design.

² The significant and growing penetration of nonsynchronous onshore wind capacity on the island may however necessitate additional thermal capacity investment. Thermal is needed to back up renewable generation for energy security. Current markets cease to function when the penetration of generation with zero marginal MWh cost gets too high and thermal generation is providing a service to the market by providing capacity and these needs to be paid for to make sure it stays available.

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