

## **Joint Committee on European Affairs**

### **Report on the Joint Committee's Contribution to the European Commission on its Green Paper 'Towards a secure, sustainable and competitive European Energy Network', COM (2008) 782**

1. The Oireachtas Joint Committee on European Affairs wishes to thank the Commission for their invitation to national parliaments to submit their views and comments on Commission proposals received under the Barroso Initiative, including Green and White Papers. As part of this welcome initiative, the Committee has considered in great detail the Commission's Green Paper 'Towards a secure, sustainable and competitive European Energy Network'. As part of this consideration, the Committee invited and received submissions from the key stakeholders, namely Eirgrid, Bord Gáis Éireann & Gaslink and the Department of Communications, Energy and Natural Resources. The Committee also held in depth discussions with these stakeholders at its public meeting on 19 March 2009. The Committee would like to thank these groups for their cooperation and very useful contributions. The Committee also invited and received written observations on the Green Paper from the Joint Committee on Climate Change and Energy Security. The Committee would like to thank its colleagues for their valuable observations.

#### **A. Views of Key Stakeholders Consulted**

##### ***Eirgrid***

2. Eirgrid is Ireland's independent transmission system operator and operator of the wholesale market. It is very supportive of the thrust of the Green Paper and of the complementary reforms attached to it such as the 3<sup>rd</sup> internal Energy Market liberalisation package, the second energy strategy review and the renewable energy and climate change package.
3. Eirgrid is already managing and taking forward a number of initiatives which are critical to the pillars of the strategy outlined in the Green Paper, i.e. security of supply, competitiveness and sustainability. The most significant is the single electricity market working on the island of Ireland. It is unique in European terms in that it is a single market between two jurisdictions, two separate currencies and two separate tax regimes. The single electricity market is an all-island platform for the wholesale trading of electricity and it is fully consistent with EU policy on regional markets. It is also a very significant step in developing a truly competitive industry. The next step in developing this

regional market will be the completion of the east-west inter-connector between Ireland and the UK.

4. Eirgrid is also investing heavily in the modernisation of the Irish grid. This strategy, Grid 25, is a long-term project for the development of the grid. The key drivers behind this long-term project are: the provision of a modern grid and infrastructure for renewed economic growth; using the grid to break down regional barriers, allowing regions and local communities to develop indigenous industries and thus share in the renewed economic growth; and access to and distribution of renewable resources, including wind and ocean energy. Grid 25 is a €4 billion investment over the 17-year period to 2025.
5. With regard to the internal market reforms set out in the Green Paper, Eirgrid supports the reform of the current regulation and directive, i.e. 3<sup>rd</sup> internal energy market package. It believes that one of the key elements in this package is full independence of the transmission grid. The policy is to create a single transmission company in Ireland. Eirgrid supports the integrated market to promote efficiency with cost savings to the end users.
6. Eirgrid believes reform of the TEN-E funding framework is needed. Given the scale of some of the bigger infrastructural projects, Eirgrid would like to see the EU make a bigger contribution. The projects should be on a European scale and delivering on EU policy. Therefore, Eirgrid would welcome an integrated approach to the support instruments. Eirgrid also believes that the European Investment Bank is a key institution for providing the capital for energy network projects and would like to see it as a central player.
7. Eirgrid believes in working on the ground with local communities with regard to the challenges presented by the building of large infrastructural projects. Eirgrid has successfully delivered the transmission grid by listening to local communities and mitigating the inevitable impact of infrastructure development on local environments. Eirgrid would urge the EU to play a role in providing public education to ensure that citizens are fully informed about the EU's energy policy and its importance to sustainable development.

#### ***Bord Gáis Éireann & Gaslink***

8. Gaslink is the independent system operator for the Gas market. It holds the licence for the transmission and distribution of gas in Ireland. It is an independent subsidiary of Bord Gáis Éireann and is responsible for the full operation, maintenance and development of all Bord Gáis-owned natural gas systems, both transmission and distribution.

9. Bord Gáis agrees that the substantial increase in gas reserves has created an unprecedented requirement for infrastructural projects to connect reserves with markets. It believes that this infrastructure, which must be developed quickly in the next two decades, will take two forms, long distance pipelines and liquefied natural gas (LNG).
10. Bord Gáis believes that the EU will eventually need to move to a single energy market and a single transportation network for gas in Europe. It agrees that networks are key to delivering secure and sustainable supplies, but there are other factors involved. For instance, the main reserves that will supply Europe's future gas needs are located outside the EU. The key issue to pipeline interconnection is not within Europe, but between the EU and the producing countries. In this regard, the development of LNG export and import facilities is very important and funding support from the EU will be required. It is also important that there is enhanced interconnectivity within Europe, so that when gas is landed, it can easily be moved around.
11. It is Bord Gáis' view that another important component to delivering secure gas supplies is that political relationship between the EU and producer countries. The experience in the recent past has been bilateral efforts on the part of individual Member States rather than EU common efforts. In terms of energy security, Bord Gáis believes that there is a pressing need for EU level planning and a united European front when it comes to dealing with the gas producing countries.

***Department of Communications, Energy and Natural Resources***

12. The Department acknowledges that the Green Paper is part of a wider European energy policy focus and believes it is fundamental for security of supply and future investment in energy infrastructure. It believes that Irish energy policy fully reflects and responds to EU energy policy developments. The national context for Ireland's work in EU terms is the energy policy framework, the programme for government and most recently the framework for sustainable economic renewal – Building Ireland's Smart Economy. The three pillars of Ireland's energy policy framework is competitiveness, energy costs for enterprise and consumers and investment and competition in the energy sector. Other issues include security of supply, with delivering capacity, infrastructure, networks and fuel diversity. In addition, environmental sustainability is about delivering on Ireland's renewable energy efficiency and climate change targets.
13. The Department points out that major power deficits are looming, networks are

ageing and there is a need for investment in gas networks and infrastructure, including storage and LNG. Interconnection across Europe should be a key priority. Allowing energy to flow across the 27 Member States is one of the linchpins of the second strategic energy review and should be fully pursued.

14. Many of the challenges presented by energy policy are shared. However, these challenges can be more profound for Ireland given our isolated and peripheral market and our considerable dependency on fossil fuel imports. The Department identifies, therefore, the urgency and scale of infrastructure investment and the need to ensure that security of supply underpins internal market, regional development and environmental sustainability. In this respect, the Department agrees that there are funding issues and there is therefore a need for a major review and revision of the TEN-E mechanism. The role of the European Investment Bank should continue to be developed.
15. The Department agrees that there are difficulties with planning in a number of Member States through delays and the “not in my back yard” syndrome. All governments in Europe must rise to the challenge of persuading and developing public understanding of why investment in energy infrastructure is in the interests of citizens, the economy, regional development and developing renewable energy. The public understanding of that has to somehow match itself to what might be seen as the personal inconvenience or distress that might be related.
16. The Department also believes that addressing the skills deficit in the energy sector is a European and Irish problem, especially in relation to engineering and IT skills. The sector has an ageing profile across the world and it is quite clear a major supply chain of first class graduate engineers is needed in both Irish and European contexts. The innovation and research imperative is also a critical part of the energy agenda and it is reflected in the Green Paper in the sense that the smart networks ambition requires research into the grid and a variety of challenges inherent in delivering smart, efficient networks.
17. The Department believes that the ultimate outcome should be that Ireland and Europe has a secure, competitive and sustainable energy environment for enterprise and consumers; a modern efficient energy infrastructure; a fully interconnected Europe; smart grids delivering for a smart green economy; a fully functioning internal energy market, which links peripheral markets such as Ireland with the centre and which also ensures that central energy networks in Europe are equally interlinked; and a more sustainable and diverse mix of energy supplies. It is equally important for Ireland that Europe is interlinked and works efficiently in energy terms so that both Ireland and Europe can meet the

renewable energy, energy efficiency and climate change targets for 2020, that we have a stable energy investment framework that attracts new investors for the long term, that we have a reliable and competitively priced energy supply for Irish and European business and all consumers, and in that context, that the question of energy affordability for vulnerable consumers is kept to the forefront of our minds.

### ***Joint Committee on Climate Change and Energy Security***

18. As part of its consideration of the Green Paper, the Joint Committee sought the views of the Joint Committee on Climate Change and Energy Security. The comments of the Joint Committee on Climate Change and Energy Security appear in full in Annex C. Below is a summary of these comments:

- Competitive and well structured EU gas and electricity markets are essential to promote investment in infrastructure and the key issue is to make continuous progress in market reform and infrastructure simultaneously;
- The EU's growing external dependence on imported gas has to be matched by substantial investment and transit pipeline capacity to ensure adequacy of supply into the future;
- Our long-term energy security is best facilitated by an EU policy on gas security enabled by network investment and underpinned with strong and interdependent relationships with producer and transit countries;
- The principle barrier to the development of a European grid and gas network is the achievement of an efficient and integrated pan-European market structure and this can only be developed in stages over a long transition period;
- There are different challenges in the gas and electricity markets, particularly as regards security of supply and the integration of new energy sources;
- The infrastructure and associated investment needs in gas and electricity supply are very substantial into the medium-term and are much more likely to be met in conditions of reasonable regulatory certainty;
- The current coordinating mechanisms for national regulatory authorities need to be developed in line with the development of the internal energy markets. The strategic role of the European Commission in orchestrating an orderly development of these markets is paramount;
- It is difficult to see how the Commission could effectively arbitrate in local planning matters save to insist that EU guidelines are adhered to. With the consent of disputing parties, the Commission could usefully act as a facilitator and broker a solution that respects the interests of the parties in conformity with EU law;
- Research and demonstration in electricity networks should focus on issues

related to bulk power transmission over long distances, for example from large offshore wind or wave farms, and on smart grids for distributed energy sources such as micro-generation and thirdly on technologies and systems that will facilitate consumer participation in the electricity and gas markets via intelligent smart metering with supporting tariff structures;

- On the gas front, research needs to concentrate on the value and provision of flexibility tools such as gas storage, interruptible supplies, and the incidence of costs and benefits arising from the promotion of interlinking of networks to provide for security of supply via alternative supply infrastructure paths;
- With respect to market development, the EU should assist governments to focus on transparency of information, measures to increase commercial investment and to participate in investment-friendly regulatory convergence. Regulatory frameworks that effectively enhance investment will help meet short-term policy goals and when infrastructure matures will provide long-term benefit to the market;
- The EU is also in the best position to lead on external relations and to indicate where more investment is in the interests of the Union and to support such views with appropriate analysis and research on options available;
- Political, technical and commercial considerations that are inhibiting desirable investment may call for and justify EU involvement in facilitating infrastructure projects in third countries. It would be important to distinguish between energy source or primary supply countries and transit countries, where costs and benefits are very different;
- In terms of support to developers of new energy networks, the most appropriate support which the EU could offer would be in the area of technical and commercial appraisal linked to the determination of the incidence of costs and benefits within a clearly articulated network development framework;
- The development and application of appropriate metrics is most desirable to avoid giving the impression of a simply “shopping list” of projects;
- In terms of improving the focus, effectiveness and impact of the TEN-E policy, the EU should articulate separate and distinct strategic goals for gas and electricity networks and provide clear links supported by metrics to policy;
- The extension of TEN-E to oil and other putative networks are not seen as a priority at this time;
- It would help TEN-E/EU to gain more impact and visibility if it was turned into an operational security of supply and solidarity instrument but it should have clearly communicable and widely-shared goals.

## **B. Views of the Joint Committee on European Affairs**

19. The Joint Committee, supports in principle, the objectives and priorities set out in the Green Paper. It believes that modern, integrated Energy networks in Europe are vital to a well functioning and competitive energy market. Therefore, the results of the Green Paper consultation must be consistent with the 3<sup>rd</sup> internal energy market package. Market reform and investment in infrastructure are inextricably linked and progress in these areas must be pursued coherently if Europe is to achieve a secure, sustainable and competitive energy network.
19. Investing in Europe's energy network must also be closely linked to achieving the targets of the EU's climate change and renewable energy package (or '20-20-20' package). The Joint Committee believes that the EU and its Member States must invest heavily in developing renewable energy sources, in particular wind and ocean energy. This investment must include developing electricity grids that can efficiently access renewable energy and distribute it from its point of source to where it is most needed. The challenge of intermittency must also be addressed. Therefore, it is not just a question of integrating energy networks across Europe but also integrating the future into these networks.
20. The Joint Committee believes that this will not only take investment in infrastructure but also investment in research and demonstration. In this area, the EU's funding should prioritise (i) bulk power transmission over long distances, for example from large offshore wind or wave farms (ii) development of smart grids for distributed energy sources such as micro-generation and (iii) technologies and systems that will facilitate consumer participation in the electricity and gas markets via intelligent smart metering with supporting tariff structures. It should be possible for local communities as well as individual dwellings to establish micro-generation facilities using renewable energy sources that will not only power their activities but also allow them to sell excess power back into the national grid. The Joint Committee also believes that the EU could undertake an awareness raising campaign on the value of micro-generation and examine the possibility of establishing an advisory body on how individuals can go about setting up micro-generation facilities.
21. It is also important that the EU and its Member States look at the training needs surrounding the development of smart grids and metering as well as the harnessing of renewable energy. The skills deficit in the energy sector is a European and Irish problem, especially in relation to engineering and IT skills. The sector has an ageing profile across the world and it is quite clear a major supply chain of first class graduate engineers is needed in both Irish and

European contexts. This problem must be addressed.

22. On the gas front, research needs to concentrate on the value and provision of flexibility tools such as gas storage, interruptible supplies, and the incidence of costs and benefits arising from the promotion of interlinking of networks to provide for security of supply via alternative supply infrastructure paths. The Joint Committee believes that investment in infrastructure should primarily be directed at the development of LNG facilities and long-distance pipelines.
23. The Joint Committee agrees that the TEN-E needs major review and revision. The 'shopping list' approach to identifying projects should be abandoned to be replaced by the development and application of appropriate metrics. TEN-E should therefore be turned into a security of supply and solidarity instrument with clearly defined and communicable shared objectives. In terms of improving the focus, effectiveness and impact of the TEN-E policy, the EU should articulate separate and distinct strategic goals for gas and electricity networks and provide clear links supported by metrics to policy. The Joint Committee believes that the TEN-E should continue to be limited to gas and electricity and does not support its extension to oil networks.
24. In terms of funding for capital projects in respect of the energy network, the Joint Committee believes that the role of the European Investment Bank should be highlighted and further developed. The Commission should concentrate on leveraging further funding from the EIB as its support for key infrastructure projects attracts the interest of other investors who see the EIB as a reliable partner.
25. In terms of security of supply, the Joint Committee acknowledges the importance of developing good relations with both transit and producer countries. To have a functioning European energy network there must be reliable sources of energy. The Joint Committee favours an EU common approach in dealing with producer countries and not the bilateral approach which seems to be favoured by some Member States. The EU is best placed to lead on external relations and to indicate where more investment is in the interests of all the Member States. It is important that the EU shows a united front on energy policy and builds good relations with a broad range of producer countries in order to ensure a diverse source of energy. The Joint Committee believes that certain provisions of the Lisbon Treaty, if ratified, would contribute immensely to the development of a truly integrated, common EU energy policy.
26. Political, technical and commercial considerations that are inhibiting desirable

investment may call for and justify EU involvement in facilitating infrastructure projects in third countries. However, it is important to distinguish between energy source or primary supply countries and transit countries, where costs and benefits are very different.

27. The Joint Committee agrees that there are difficulties with planning in a number of Member States through delays and the “not in my back yard” syndrome. However, the EU and its Member States must understand that the impact of building energy infrastructure on local communities can be very negative and this must be sensitively addressed. All planning rules must be respected and due process strictly adhered to. The Joint Committee would strongly encourage supply and transmission providers to work closely with local communities to ensure all their concerns are addressed.
28. Given the divergence of planning rules across Europe and taking account of the principle of subsidiarity, the Joint Committees finds it difficult to see how the Commission could effectively arbitrate in local planning matters save to insist that EU guidelines are adhered to. Perhaps, with the consent of disputing parties, the Commission could usefully act as a facilitator and broker a solution that respects the interests of the parties in conformity with EU law.
29. Many of the challenges presented by energy policy are shared. However, these challenges can be more profound for Ireland given its isolated and peripheral market and its considerable dependency on fossil fuel imports. Therefore, the Joint Committee believes that investment in energy network infrastructure should take account of regional development and ensure that all EU regions are fully integrated into the centre. The Joint Committee underlines the significant contribution the single all-island electricity market is making to regional policy and welcomes the EU’s financial support contained in its Economic Recovery Plan for the east-west inter-connector between Ireland and the UK. However, the Joint Committee is concerned that the six priority projects highlighted in the Green Paper may be seen as exclusive and therefore would not take account of Ireland’s geographical positioning and the need for comprehensive interconnection between the western periphery and the continent.
30. With respect to market development, the Joint Committee encourages the EU to assist governments to focus on transparency of information, measures to increase commercial investment and to participate in investment-friendly regulatory convergence. Regulatory frameworks that effectively enhance investment will help meet short-term policy goals and when infrastructure

matures will provide long-term benefit to the market. This market development should facilitate competition in the market. This competition should be organic. This will ensure that the primary beneficiary is the end user through lower energy prices.

31. In this time of economic difficulty, all energy policies, including policies on energy networks, should have economic renewal as a central strategic driver. The EU's policies on energy networks should not only take account of security and environmental sustainability but also have at their centre the need to drive economic renewal and regional development. The Joint Committee believes that secure, efficient, cost effective energy networks are key to ensuring that indigenous, local enterprises can survive and grow and that foreign direct investment can continue to flow. Also investment in energy research and demonstration as well as infrastructure can create economic activity and employment. A modern energy network and infrastructure, together with a competitive energy market, are vital for achieving a competitive European economy as envisaged in the Lisbon Strategy for Growth and Jobs.