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NOW Ireland Response to Electricity Market Reform Consultation December 2010

NOW Ireland is the representative body for the Irish Offshore Wind Energy sector. Its membership includes project development companies with projects under development in Irish waters and supply chain companies who provide services and equipment to this rapidly developing sector.

The members of NOW Ireland wish to submit a copy of the attached draft document entitled “Blueprint for the Development of Irish Offshore Wind” in response to the current consultation on Electricity Market Reform. This document was prepared following a NOW Ireland delegation visit to Brussels in January 2011, prior to the EU Heads of State Meeting on Energy which took place on 4th February 2011. The “Blueprint” includes:

- the thinking of a number of major multinationals who are looking favourably at Ireland
- feedback from the situation in the UK where it looks like there may be a shortfall of circa 5GW to meet the 2020 renewable energy targets and
- the need for direct input into the Employment and Investment Policy of a new Government in Ireland.

Over the last few weeks NOW Ireland has met with senior figures in the Departments of Finance, Environment and Energy. We have also held discussions with the CEO’s of the Industrial Development Authority (IDA), Enterprise Ireland, Forfas and

Sustainable Energy Ireland. All have been supportive of our objective that the development of offshore wind in Ireland form part of the industrial policy and should be included in the Annual Growth Survey to the EU – due to be submitted in April. In Brussels, DG Energy, DG ECFIN and DG Climate Change indicated to us that Ireland offshore ticks all of the boxes. Our meetings in Brussels also saw continuous reference to the fact that member states are being encouraged to identify ‘Frontloaded Investment’ areas which can be stimulated for growth development with again offshore ticking all of the boxes for Ireland. The jobs and revenues which this industry can create over the next 15 years should be highlighted to IMF/EU.

As Ireland only requires 550MW of offshore wind to meet its 2020 targets as per the National Renewable Energy Action Plan (NREAP) the other 95% of the potential 10,000 MW production is available for export. Further, as the basket of renewable continues to develop, including wave, onshore wind, biomass, etc, Ireland could be producing up to 15,000 MW of which only 4,600 MW is required to meet its targets. The rest is available for export, which is circa 70% of renewable output in 15 years time, a primary industrial development opportunity. This will then trigger a second industrial development opportunity, the significant inward investment into this country supplying part of the €60bn Irish Sea supply chain, all of which has the ability to stimulate significant growth in Ireland and create thousands of jobs.

I hope that the attached gives you a flavour of the messages within an Irish context and may perhaps give further insight into the messages that the sector is giving Irish government.

Yours Sincerely,
NOW Ireland



DRAFT FOR DISCUSSION

BLUEPRINT FOR THE DEVELOPMENT OF IRISH OFFSHORE WIND

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30th January, 2011
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“DEVELOPING THE ECONOMIC OPPORTUNITIES WHICH OFFSHORE WIND PROVIDES IRELAND”

BLUEPRINT FOR DEVELOPMENT OF IRISH OFFSHORE WIND

1. MAKING IRELAND’S OFFSHORE WIND RESOURCE WORK

- Ireland has one of the best offshore wind resources in the world [*Riso National Laboratory, Denmark, 1989*]
- Ireland is first of the EU member states to include substantial physical export of surplus renewable energy as an objective in their NREAP.
- Potential indicated in NREAP is 6,000MW subdivided:
 - 2680MW in planning
 - A further 4,000MW feasible within Irish coastal watersNOW Ireland and IWEA estimate another 5,000MW possible, plus unlimited potential in the Atlantic as deeper water technology develops.
- Ireland’s NREAP identifies only 550MW to help Ireland meet its current Renewable Energy Targets of circa 4,700MW in what is essentially a relatively small sized market currently using only 5,500MW peak.
- Thereafter, Ireland has potentially 10,000MW available for export, mainly from offshore, or 70%/80% of its renewable energy resources.
- Why shouldn’t Ireland set itself the objective of exporting 70%/80% of its renewable resources, a similar percentage to its food resources?

2. EU MESSAGE

- Member states should identify long term targets, which as a result of investment can create jobs and develop exports. Offshore wind for Ireland is it.
- Member states are being encouraged to identify “Frontloaded Investment”, areas which can be stimulated for growth development [¹EU Annual Growth Survey]. These to be highlighted to IMF/EU. Offshore offers for Ireland.
- The five targets of Europe 2020 all apply equally to Ireland offshore:

¹ <http://portal.cor.europa.eu/europe2020/news/Pages/ECAAnnualGrowthSurvey2011.aspx>

1. Employment
2. Investment in R&D
3. Climate Change / Energy
4. Education
5. Mitigation of Poverty Renewables

All five are benefited by the development of Ireland's offshore resource.

- This should be considered against a background where EU emission reduction targets (and therefore renewable energy targets) are more likely to be increased, definitely not decreased or deferred. The Commission anticipates one third of RES target from offshore wind².
- The EU-RES promotes joint RE projects between countries. In testing the theory in Brussels recently the potential of connecting Codling/Arklow direct to GB met with no objection and support in many areas.

3. MARKET SIGNALS

- Investors and Europe recognize that market signals are critical.
- To showcase/highlight Ireland's opportunity it needs:
 - (i) REFIT State Aids Clearance approved by Brussels. ***Support mechanism signal.***
 - (ii) Export discussions which have already commenced with its neighbours to be advanced. ***Export signal.***
- Multinational developers are holding back from investing in Ireland due to the small size of its market and lack of growth investment signals, including concerns about the sustainability of the remuneration mechanisms.
- A support mechanism in place approved for state aids is needed as soon as possible as the market signal which will enable the small percentage of offshore wind renewable resource, needed to meet Ireland's NREAP target, to be tied down, i.e. 550MW.
- Other 90% of Ireland's offshore renewable energy potential, i.e. circa 10,0000MW or 90% is then available for export, starting with the UK, where the UK Energy Regulator has expressed grave concern that the UK is heading off the edge of a cliff by 2015/2016, due to nuclear investment not being ready until circa 2020 and other factors.
- UK Government has already identified the issue and the opportunity which Ireland's surplus renewable potential offers. Discussions are already advanced under the British/Irish Council and between counterpart Government Departments DECC and DCENR.

² http://ec.europa.eu/energy/renewables/reports/doc/com_2011_0031_en.pdf

- Circa 1,880MW in two consented windfarms in the South West Irish Sea, which are outside of Gate 3, could proceed with development activity with a view to connecting to the UK market, subject to both Governments giving appropriate signals.
- If the existing market/code/governance arrangements for the UK Round 3 were extended to these projects, and with approval from both Governments, then these could be built with no grid/support mechanism costs to Ireland as they would not interface with the Irish grid.
- In the future, with technical and political advances, it could be possible for the connections to the UK to be extended to become an interconnector and/or form part of an Irish Sea grid as part of the North Seas Grid Initiative.
- DECC, UK, and DCENR, Ireland, have already acknowledged that, through co-operating on infrastructure, costs can be saved. The EU has identified an even greater percentage cost saving. In order to facilitate Ireland, the only country in the 27 member states which has put up its arm in terms of exports, the EU may look favourably at some form of support.
- Offshore is No.1 in the November 2010 Structure Support Document published by DG Commissioner Oettinger re Grid Infrastructure “Energy Infrastructure Priorities for 2020 and Beyond”

4. HOW IRELAND BENEFITS

- A mechanism to export the surplus provided by all renewables, i.e. onshore wind, offshore, biomass, wave and tidal, etc. needs to be developed as National Policy.
- The support mechanism for renewable energy exported is paid for by the recipient country, i.e. UK, France, etc, not by the exporting country, Ireland.
- Ireland benefits from inward investment, receipt of lease fees, corporation tax, employment taxes, VAT and direct and indirect job creation in establishing a new export sector. [*To be costed*]
- This will then attract part of the the €60 billion Irish Sea supply chain investment opportunity leading to further jobs and further export of goods and services. [*Estimate of benefit to be done*]
- Only support mechanism cost to Ireland applies to that offshore, i.e. 550MW, which Ireland needs to meet its 2020 targets. This will not be payable by the consumer until 2016 when first offshore windfarm is expected to be operational. As onshore catches up it is anticipated that by 2021/2025 this offshore can then be switched to join the other offshore being exported. [*To be costed*]

- Energy derived from fossil fuel is subsidised by €312bn according to the IEA. This subsidy is not sustainable and will be removed as a step towards mitigating climate change. Renewables such as offshore offer price stability and energy security to consumers. According to the European Commission, when allowance is made for merit order effect, overall cost to consumer can be heavily reduced³. Moves are afoot at the European Parliament to reflect this in electricity bills.
- Overall market signals leads to projects, leads to investment, leads to jobs, leads to export with no support mechanism cost, leads to a reduction in balance of payments and helps repay IMF/EU debt.

5. OVERVIEW

- Combining the above:
 - (i) Ireland's offshore resource
 - (ii) EU message
 - (iii) Importance of market signals
 - (iv) How Ireland benefits

the message can be given to DG ECFIN and DG IND that Ireland has identified offshore wind as being one sector in which long-term growth can be stimulated by 'Frontloaded Investment'.
- Current austerity is acknowledged but, through 'Frontloaded Investment', offshore can be the stimulant for part of Ireland's future growth needed to assist payback of IMF and EU support.
- International support for investment is ready and jobs can be created based on Ireland's enormous offshore renewable resource and its facility for export.
- IMF/EU need to get the message and encourage Department of Finance/Government, while Department of Finance/Government need to get the message and encourage IMF/EU.
- Annual Growth Survey for EU is being published this week with member states required to input back into same by April. Ireland offshore ticks all the boxes. DOF need to be convinced to include it in April input. Timeframe for convincing is short at 2 months.
- Traditional orthodox thinking has to be dealt with, replacing it with the offshore wind industry/export message, targeting EU presidency in 2013 and it being a cornerstone when relaunching Ireland's image in Europe.
- In conclusion, focus is on member states working together in the interest of an industry which creates and maintains investor confidence, i.e. UK and Ireland set example for rest of Europe, the consensus view being that most have produced a conservative NREAP.
- Urgency has been identified by the EU. Member states have to be converted to the fact that offshore is one of the key parts of renewables and member states who have the resource should put up their hands and contribute. Ireland has a unique opportunity to lead the way and considering its current

³ http://ec.europa.eu/energy/renewables/reports/doc/com_2011_0031_en.pdf

position it's an opportunity that should be pursued diligently, setting itself the objective of repeating the food industry export success in renewables exports.

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NOW Ireland
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