



**Public Consultation**  
**on the**  
**Review of the Electricity Sector in Ireland**

Submission from the  
**Western Development Commission**  
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Western Development Commission  
Dillon House  
Ballaghaderreen  
Co. Roscommon

Phone: 094 986 1441  
E mail: [helenmchenry@wdc.ie](mailto:helenmchenry@wdc.ie)  
Web: [www.wdc.ie](http://www.wdc.ie)

## **Introduction**

The Western Development Commission (WDC) welcomes the opportunity to make a submission to the Deloitte Review of the Electricity Sector in Ireland.

The WDC is a statutory body established by government to promote, foster and encourage economic and social development in the Western Region<sup>1</sup>. Established in 1997, the Commission was put on a statutory basis in February 1999 following the enactment of the Western Development Commission Bill, 1998. One of the main functions of the WDC is regional policy development. As part of this, the WDC seeks to ensure that government policy reflects the needs of the region across such areas as infrastructure, natural resources, industrial and rural development. It also tracks the implementation of policies and recommends adjustments as appropriate.

As part of its role in monitoring government policy and ensuring that it reflects the needs of the Western Region, the WDC regards the provision of quality electricity infrastructure and supply as important elements of the energy infrastructure required to underpin the economic development of the region. The WDC also views renewable energy as a sector with considerable potential for development in rural areas.

In this submission we make general comments about the importance of electricity provision in regional development and of ensuring that this is reflected in the structure of the electricity sector and policies for electricity. We also make specific comment in relation to policies and structures for renewable energy.

## **The importance of electricity for regional development**

The WDC believes that an efficient, resilient energy infrastructure is crucial for regional development. Given the importance of energy infrastructure in underpinning development, the WDC is concerned that regions such as the West, with low population densities and relatively little industrial development, are given due consideration in the development of policies, institutions and structures for the electricity sector.

The link between economic growth and electricity demand is well recognised, even to the extent that projected GDP growth is a key element of formulas predicting future electricity demand. Thus quality, reliable power supply, capable of meeting increasing demand is essential to any economic development.

Manufacturing industry is particularly important in the Western Region which is home to a number of very significant exporters. There is already a significant cluster of advanced manufacturing in the region. In order to promote further development, the Western Region needs to be able to attract new industries to this cluster of pharmacological/medical devices firms. The internationally traded services (ITS) sector is also very power dependent, particularly in terms of reliability, and ITS is seen as a significant growth area for the future in the Western Region.

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<sup>1</sup> Counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare.

Existing industry needs robust, reliable electricity supply, and infrastructure which is capable of meeting any increase in their electricity need. In addition, in order for the Western Region to be in a position to compete with other parts of Ireland for investment and employment, there needs to be sufficient electricity supply capacity available in order to attract new industries and services to locate or to start up in the region. Without good capacity and reliability such businesses are less likely to consider regional locations.

The WDC has, with IBEC West, raised concerns with both the Commission of Energy Regulation (CER) and ESB National Grid (ESBNG) in relation to infrastructure and supply, and has emphasised that appropriate investments must be made to allow the region to compete in attracting industry and employment. While the WDC welcomed the recent improvements and reinforcements in the transmission and distribution networks, there are still areas of difficulty (Donegal and North Mayo in particular), and the WDC is particularly concerned as to their effect on inward investment and consequently on regional development.

In much of the region there is little choice of energy supply (e.g. natural gas) and hence the Western Region is particularly reliant on electricity. It is thus important that electricity users in the region can plan for future developments confident that supplies will improve and that their remoter locations will not militate against them in terms of electricity provision and cost.

It is essential, therefore, that the institutional and market structures in the electricity sector are such that they can ensure that this is the case, and there is a facility, in any structures and market arrangements, to consider the broader development needs of regions as an element of the policy and regulatory process.

The Western Region is predominantly rural and the WDC is aware that users in rural areas face significantly higher standing charges for their electricity than users in larger urban areas. The WDC recommends that the basis for these differing charges, and for the rural and urban designations, is made explicit. The WDC wishes to emphasise that any changes to market structures or arrangements should not result in further widening of the gap in charges faced by rural and urban customers.

## **Balanced Regional Development**

In order to achieve the government objective of balanced regional development (as specified in both the National Development Plan (NDP) and the National Spatial Strategy 2002-2020 (NSS)) the Western Region needs to be competitive as a location for inward investment and needs to be able to compete on a level playing field in terms of energy infrastructure, and electricity provision.

The promotion of balanced regional development is government policy, with the commitment outlined in both the NDP and the NSS. In both of these major policy documents the role of electricity in regional development is considered. The key points in relation to electricity are highlighted here.

In the NDP it is acknowledged that the investment in electricity infrastructure and supply will not be directly controlled by the government:

The vast bulk of capital investment in the energy sector over the period to 2006 will take place outside of the provisions provided for in the Plan. The importance of the energy transmission

network to the promotion of regional development is recognised. The Government will be concerned, in the context of a more competitive environment for energy supplies, to ensure that energy capacity *does not act as a constraint on regional development*. (NDP, 2000, p67 (italics added))

The WDC would like to emphasise that this should be borne in mind when considering structures and institutional arrangements in the sector, and recommends that regional development considerations be explicitly recognised in planning and development in the sector.

The NSS 2002-2020 is the key government policy on balanced regional development. As was highlighted throughout the NSS, the development of regional infrastructure is essential to achieve that strategy. A number of the relevant points are drawn attention to here.

The NSS emphasises that:

Reliable and effective energy systems, such as gas and electricity to power industry and services, are key prerequisites for effective regional development. (NSS, 2002, p64)

It goes on to suggest that:

Prime considerations in terms of spatial policies relating to energy include:

- Developing energy infrastructure on an all-island basis to the practical and mutual benefit of both the Republic and Northern Ireland
- Strengthening energy networks in the West, North West, Border and North Eastern Areas in particular
- Enhancing both robustness and choice of energy supplies across the regions, through improvements to the national grids for electricity and gas (NSS, 2002, p64)

The NSS also provides for the provision of infrastructure ahead of actual need:

In certain exceptional circumstances, where the NSS is proposing accelerated regional growth, there may be a category of infrastructure whose provision is particularly critical to supporting the growth of, for example, a new gateway and its associated region.

In such circumstances, it may be necessary to consider, over the 20-year horizon to which the NSS relates, the advance provision of key infrastructure ahead of actual need. This might apply in the following circumstances

- substantial growth is anticipated and a quantum shift is required in providing infrastructure such as energy, communications and transport
- the private sector clearly does not have the capacity to provide the particular infrastructure
- the provision of such infrastructure would strongly support the spatial objectives of the NSS. (NSS, 2002, p70)

The WDC would like to emphasise that the provision of infrastructure in advance of actual need is a key part of policies promoting regional development. Any changes to institutional arrangements, market structures or policies for the sector *must be able to take this into account* so that they may be given due consideration in planning and decisions of the Commission for Energy Regulation (CER), the Transmission Asset Owner (TAO) and Transmission Service Operator (TSO) and the Distribution Service Operator (DSO) and any companies operating in the sector.

## **Role and position of renewable energy sources within the market**

The WDC's main involvement in the renewable energy sector has been with small-scale and/or community owned projects. In June 2004, the report *To Catch the Wind: The Potential for Community Ownership of Wind Farms in Ireland* was published. This report was the result of two years of work by the Renewable Energy Partnership (REP) comprising Mayo Community Wind Energy Group (MCWEG), Brí Nua Community Wind Energy Group (Donegal) and the WDC.

### **Community involvement in renewable energy**

The purpose of *To Catch the Wind* was to investigate the potential for community organisations in Ireland to play a central role in the development of the renewable energy sector as has occurred in other European countries, notably Denmark. Though *To Catch the Wind's* main focus was the wind energy sector, many of the findings and recommendations apply equally to community involvement in other renewable energy technologies such as anaerobic digestors and CHP.

The reason for the WDC's focus on community involvement in the renewable energy sector is threefold:

- **Rural development:** renewable energy projects, by their nature, are best suited to rural locations and often involve the utilisation of local natural resources. The WDC believes that renewable energy provides an opportunity for economically and environmentally sustainable rural enterprise. It could also play an important role in the provision of alternative employment opportunities in rural areas experiencing agricultural decline. Case studies from Denmark, the UK and Germany where renewable energy has played a positive role in rural development are included in *To Catch the Wind*. The potential of this sector to promote rural development in Ireland however, is dependent on changes to the current policy framework as outlined below.
- **Public acceptance:** there can be opposition to the construction of certain renewable energy projects, particularly wind farms. In some cases opposition can be exacerbated by a perception that the project brings very little benefit to the local area. Community involvement in renewable energy projects may result in increasing levels of public acceptance of such projects.
- **Increasing green energy supply:** Ireland is committed to achieving a target of at least 13.2 per cent of generating capacity from renewable sources by 2010. It is likely that future targets will be considerably higher, as will CO<sub>2</sub> emission reduction targets. Added to this are the increasing costs of fossil fuels. Ireland must therefore substantially expand its renewable energy sector to meet these targets and ensure appropriate levels of fuel diversity. The WDC considers that all means of increasing renewable energy production should be facilitated, including community and small scale projects.

*To Catch the Wind* made a number of recommendations which, if implemented, would facilitate small scale and/or community owned renewable energy projects. These recommendations continue to be of relevance to the current review of the

electricity sector in Ireland and the role and position of renewable energy sources within the market.

## **1. National Policy Framework**

Firstly, there is a need for the fiscal, regulatory and infrastructural policy framework in Ireland to support the development of small scale and community owned renewable energy projects. The current Review of the Electricity Sector presents an opportunity to develop the necessary supportive policy framework. Specific recommendations in this regard are given below. The new policy framework should discriminate positively in favour of community participation in renewable energy development so as the positive benefits of local involvement, as discussed above, can be realised.

## **2. Grid Access**

The cost and uncertainty of connecting to the national grid is a major constraint for small scale and community participation in renewable energy. In Ireland, the costs incurred for connection to the grid must be borne by the renewable energy project whereas in many other countries these costs are borne by the distribution or network system operator.

The very substantial increases in connection costs, the lack of real competition in the distribution market, the requirement for substantial upfront payments and the complexities involved in the group processing approach, mean that connection to the grid is now probably the biggest barrier to entry for small scale renewable projects. Added to this is the complexity of the project development process i.e. planning permission, Power Purchase Agreement, connection offer etc. and the lack of co-ordination among the various licensing and approval bodies.

The WDC recommends that all renewable energy projects below a certain size and with a high level of community involvement should be provided with a connection to the national grid at no cost to the project. The eligibility for such connections needs to be established according to clearly defined criteria. An example of possible eligibility criteria is given in Appendix I of *To Catch the Wind*.

## **3. Pricing**

One of the main recommendations of *To Catch the Wind* was the replacement of the Alternative Energy Requirement (AER) competitive bidding system with a fixed feed-in law with an index linked price that would be guaranteed for at least ten years. Such a move is necessary if Ireland is to have any chance of achieving its 2010 target.

The WDC therefore welcomed the Minister's announcement in April 2005 of a move to a fixed price support scheme. However, the details of the new scheme, most critically the value of the fixed prices, have yet to be announced (as of August 2005). This only serves to increase the level of uncertainty within the renewable energy sector. It is known that the scheme will incorporate a banded fixed price system for different technologies, we would argue that there must also be differential prices offered for small-scale renewable energy producers.

#### **4. Financial supports and incentives**

State support or incentives should be given in a way which encourages all those living in areas where wind farm or other renewable energy projects are being developed to invest, regardless of their tax status. Such assistance could, for example, take the form of providing a level of support equivalent to that enjoyed by those availing of the BES scheme to all investors in renewable energy projects.

Alternatively, state support for renewable energy development could take the form of providing all renewable energy projects with cost-free connections to the national grid (as discussed above), a subsidy specifically permitted by Article 7 of the EU's 2001 Directive on the Supply of Electricity from Renewable Sources.

#### **5. Establish a Renewable Energy Advisory Group**

There is a need for a support structure to help communities develop renewable energy projects of their own or to negotiate a stake in commercial projects being developed in their area. Therefore seed funding should be provided to enable the establishment of a Renewable Energy Advisory Group (REAG).

The effectiveness of such a group would be dependent upon changes, such as those recommended here, to the policy framework governing renewable energy development in Ireland. Details of the operation of the proposed REAG are given on page 25 of *To Catch the Wind*.

### **Conclusion**

This submission from the WDC has covered the role and importance of electricity in regional development and recommendations in relation to increasing community ownership in the renewable energy sector. The key points of the submission are noted below.

- The WDC welcomes the fact that as part of the Terms of Reference for this review the consultants are required to make recommendations on the most appropriate institutional arrangements in order to, among other things, “underpin the effective contribution of the electricity sector to balanced regional development and to the delivery of the objectives of the National Spatial Strategy 2002-2020”. The WDC looks forward to examining the consultants’ recommendations in this regard.
- The WDC recommends that any institutional structures and market arrangements for the electricity sector take account of government policies and objectives such as balanced regional development and that these be considered as elements of any policy or decisions governing the development of the sector. Currently the CER is obliged to take account of government policy, but this should be unambiguous and implications for balanced regional development should be explicitly considered in relation to any decision regarding planning and development in the sector.
- The provision of infrastructure ahead of actual demand is an important element of government regional policy. Institutional arrangements for

planning and development in the sector should be able to take this into account.

- The WDC would also be concerned that any changes in market structure should not result in a widening of the gap in charges faced by those in rural areas compared to those located in larger urban centres. This commitment should be made clear in the review.
- The WDC also believes that changes to the institutional arrangements and market structures within the electricity sector to facilitate the five recommendations outlined above for the renewable energy sector would enable the development of small scale and/or community owned renewable energy projects in Ireland. This could significantly contribute to rural development, increase public acceptance of renewable energy projects and further stimulate expansion of the sector.

The WDC is happy to provide further information or examples in relation to this submission, should they be required. We are also happy to meet with the consultants to discuss any of these points in more detail.

*Western Development Commission*  
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If there are any further general queries in relation to this submission, please contact

Dr Helen McHenry  
Policy Analyst  
Western Development Commission  
Dillon House  
Ballaghaderreen  
Co. Roscommon  
Phone: 094 986 1441  
E mail: [helenmchenry@wdc.ie](mailto:helenmchenry@wdc.ie)

If there are any queries in relation to the submission on renewable energy, please contact

Pauline White  
Policy Analyst  
Western Development Commission  
Dillon House  
Ballaghaderreen  
Co. Roscommon  
Phone: 094 986 1441  
E mail: [paulinewhite@wdc.ie](mailto:paulinewhite@wdc.ie)