

Press Release

Tuesday 6 October 2009

Reducing Energy Costs is Essential for Competitiveness - NCC

A reliable and competitively priced supply of energy is vital to enable Irish exporters compete successfully in global markets. While recent reductions in gas and electricity prices are welcome, further, immediate action is required to improve Ireland's ranking relative to other countries with whom we compete, according to the National Competitiveness Council on the publication of its *Statement on Energy* today, which assesses Ireland's energy challenges and sets out priority areas for policy action to improve Ireland's competitiveness both in the immediate and longer term.

Electricity prices for business in Ireland are significantly out of line with other EU countries. Ireland has the fourth highest industrial electricity price of the EU-27 and is 35.5 percent more expensive than the Eurozone average. Recent reductions in electricity prices are a positive development but are not sufficient to improve Ireland's competitiveness.

A number of factors that affect Ireland's energy cost performance are outside our direct control, such as global fuel price volatility and our reliance on imported fossil fuels (oil, gas and coal). However, there are a number of areas where Ireland can, and must, act without delay to improve its performance. The main policy actions identified by the NCC to improve Ireland's energy cost competitiveness are set out below:

- Regulation needs to prioritise bringing the differential in controllable domestic costs (i.e. non-fuel costs) into line with costs in our main competitor countries. Every effort now needs to be made to take advantage of the successful creation of the all-island electricity market;
- Given the introduction of the single electricity market in November 2007, it is timely to review the market rules to ensure that the market is functioning optimally. In particular, the Council recommends reducing the level of capacity payments further (i.e. the mechanism designed to ensure adequate electricity supply to meet demand) to reflect the fall in capital costs for new plants as well as the decline in electricity demand;
- Electricity generated from renewable sources (e.g. wind) and peat receives a guaranteed price. These subsidies help reduce Ireland's dependency on imported fuel, and in the case of renewables help Ireland to meet its renewables and climate change objectives. While public subsidies can play a key role in supporting emerging sectors,

the NCC is concerned about the cost implications for the competitiveness of electricity customers. All price support mechanisms for renewables should be designed to be transitional with decreasing support levels over time;

- The carbon windfall should be recovered from electricity generators and passed back to electricity consumers through lower prices, on an annual basis, to 2012.

Reducing our dependence on imported fossil fuels is a significant competitiveness challenge for Ireland. Ireland currently imports approximately 90 percent of its energy needs (i.e. for electricity, heat and transport). While Ireland must take steps now to address the longer term security of supply and climate change issues, it is absolutely critical that those steps are consistent with the urgent need to enhance the cost competitiveness of Irish businesses. It is vital that the development of Ireland's considerable renewable energy resources is progressed in a fashion which improves energy cost competitiveness. This presents major policy challenges.

Ireland will have to continue to rely on a range of other fuel sources and it is important that they receive an equal policy focus. Policy decisions on how Ireland replaces baseload electricity generation at Moneypoint will shape Ireland's security of supply for decades to come. Greater interconnection can also support security of supply and assist the achievement of our renewable objectives.

Ireland's energy challenges also present significant opportunities for the enterprise base. As an exporting economy with a strong existing enterprise base, Ireland has opportunities to develop domestic companies in energy and related areas and to attract a greater share of foreign direct investment in the global environmental goods and services sector.

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The full report is available on the NCC website, www.competitiveness.ie