

CONTINUING HIGH ELECTRICITY PRICES DAMAGE COMPETITIVENESS

- While competitiveness has improved in recent years, large increases in Irish electricity prices since 2012 are putting Irish-based businesses under pressure and are a threat to Ireland's competitiveness
- Policymakers must tackle domestically controllable elements of energy costs
- The forthcoming Energy White Paper MUST prioritise cost competitiveness
- Policy focus must be on increasing investment and competition in the market, and putting the consumer at the heart of the new regulatory regime

WHY ELECTRICITY COSTS MATTER FOR COMPETITIVENESS

Ireland's ability to compete in international trade is a key determinant of wages, living standards and financing of social services like health, education and social protection. The economy is recovering and competitiveness has improved in recent years. However, a **reliable and competitively priced supply of energy** is vital for all businesses, especially to those competing in international markets. The urgent challenge facing Ireland is to reduce energy costs while delivering on our security of supply and environmental sustainability objectives.

Changes in relative energy price competitiveness can have far-reaching effects on investment, production and trade patterns in internationally trading sectors, and directly affect the ability of enterprise to retain and grow output and employment.

The **significant deterioration in Ireland's energy cost competitiveness** (and specifically in relation to electricity) in recent years **threatens Ireland's attractiveness** for new mobile investment in energy intensive sectors such as food and drink, life sciences, ICT (data centres and sectors dependent on these facilities such as digital media, cloud computing, big data, etc.), construction materials and other manufacturing sectors. Our high electricity prices are also putting internationally trading businesses under pressure, particularly large regional employers, operating in low margin markets where their prices are determined globally. Recent **large increases in electricity costs have to be absorbed by firms**, as they compete and trade in global markets.

CURRENT POLICY CONTEXT

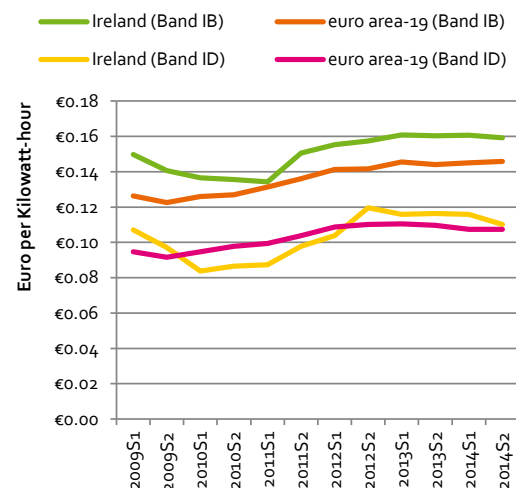
The development of a new energy policy White Paper by the Department of Communications, Energy and Natural Resources provides Ireland with a timely opportunity to

reassess its energy priorities and ensure we are making the right energy policy choices today to support long term economic growth and international competitiveness¹.

HOW IRELAND PERFORMS

While many aspects of the Irish energy market have improved in recent years (e.g., security of supply, the establishment of the all island electricity market, the opening of energy retail business markets), there has been a deterioration in cost competitiveness for electricity. Irish electricity prices during this period for small users (Band IB) have consistently been higher than euro area average prices, while prices for large users (Band ID), prices have been higher in Ireland since the ending of a temporary rebate in 2012 (Figure 1)².

Figure 1: Electricity prices, 2009-2014



Source: Eurostat

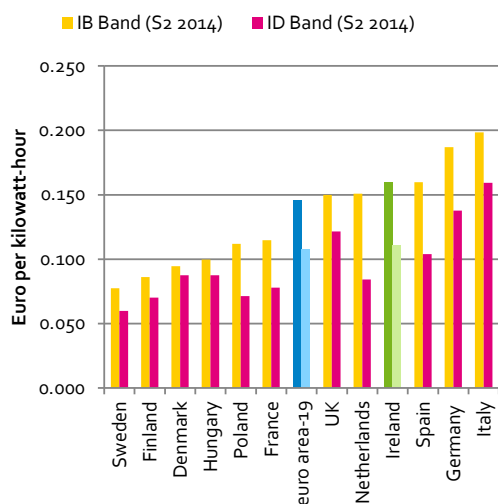
Electricity prices for large users in Ireland increased by 17.5% between 2010 and 2014. Electricity prices for SMEs

¹ A White Paper on Energy Policy is due to be published by October 2015.
² Electricity prices for SMEs are based on an annual consumption of 20 and 500 MWh (Band IB) and prices for large users are based on an annual consumption of 2,000 to 20,000 MWh (Band ID). Prices exclude VAT and other taxes and levies. Euro area averages are based on a simple average for all 19 countries.

increased by 27.3% over the same period – well above increases in the euro area.

In the second half of 2014, Irish prices for SMEs were the 7th most expensive in the euro area (an unchanged ranking since S2 2010), while prices for large users were 6th most expensive (12th in S2 2010), as illustrated in Figure 2.

Figure 2: Electricity prices, S2 2014



Source: Eurostat

DRIVERS OF ENERGY COSTS: FOCUS ON CONTROLLABLE COSTS

While a number of factors that determine energy costs are outside the control of Irish policymakers (e.g. international fuel prices; Ireland’s small, dispersed population, etc.), domestic policy and regulatory decisions do matter. Tackling the **controllable cost components** needs to be prioritised in the new energy policy³. Given the sharp deterioration in energy cost competitiveness since 2010, the new **Energy White Paper needs to re-balance Ireland’s energy policy to prioritise cost competitiveness**. To improve cost competitiveness policymakers should:

- Ensure the **optimal functioning of the Integrated Single Electricity Market (I-SEM)**. It is important that the new market design sends the right investment signals to ensure that future energy needs are met at least cost (i.e. the right amount of capacity delivered, with the right characteristics in the right locations).
- Review the **supports for renewable electricity generation** ensuring that they are subject to market

forces to the greatest extent possible. As a mature technology, price supports for new onshore wind projects should be discontinued when REFIT 2 ends in 2017. Enterprise opportunities in emerging energy technologies should be funded by the exchequer through competitive funding mechanisms for R&D rather than by energy customers⁴.

- Review the **electricity market structure**. While competition has increased both in generation and supply markets, ESB retains a significant share of the price setting generation plant in the market. As highlighted by the OECD, the IEA and others, some of ESB’s price setting generation plant should be divested to reduce ESB’s dominance and increase competition⁵.
- Deliver **energy infrastructure investment at least cost**⁶: Ireland needs to ensure adequate regional/local spare network capacity to meet additional enterprise demand, especially in the main urban centres. This is particularly relevant for large, energy intensive manufacturing activity.
- Review the **regulatory framework** to ensure that it supports the delivery of the revised priorities in the new energy policy. The White Paper needs to set out a hierarchy of policy/regulatory objectives, which prioritise the promotion of consumer interests (business and residential), and effective mechanisms to rigorously assess whether policy objectives are being achieved.

Further Reading

The policy positions summarised herein are drawn largely from the Council’s series of *Costs of Doing Business in Ireland* reports and the *Competitiveness Challenge 2014*. See www.competitiveness.ie.

Ireland’s National Competitiveness Council reports to the Taoiseach (Prime Minister) on key competitiveness issues facing the Irish economy and offers recommendations on policy actions required to enhance Ireland’s competitive position. The Department of Jobs, Enterprise and Innovation provides the Council with research and secretariat support. This Bulletin has been issued by the Chair and Secretariat.

³ For more detail on controllable and non-controllable drivers of energy prices, see Forfás, Sectoral Regulation: A Study to Identify Changes to Sectoral Regulation to Enhance Cost Competitiveness, April 2013; See also the Joint Response by Forfás/EI/IDA Ireland to the Consultation by DCENR on the Green Paper on Energy Policy in Ireland, available from www.dcenr.ie.

⁴ DCENR will be considering the appropriateness of a new support scheme for renewable electricity, from 2016 onwards.

⁵ IEA, Energy Policies of IEA Countries: Ireland 2012 Review, July 2012

⁶ A public consultation is currently underway in relation to EirGrid’s draft Grid Development Strategy.