Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Electricity Market Reform

9 February 2012

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Alban Maginness (Chairperson)
Mr Daithí McKay (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Phil Flanagan
Mr Paul Frew
Ms Jennifer McCann
Dr Alasdair McDonnell
Mr Stephen Moutray
Mrs Sandra Overend

Witnesses:

Mr John Simpson	Expert Witness

The Chairperson: I welcome Mr John Simpson, who is here, at very short notice, to brief the Committee on electricity market reform. He is a very distinguished economist and has made many contributions to debates here, formally and informally. Members have a copy of the Cambridge Economic Policy Associates (CEPA) report on electricity market reform, which was commissioned by the Department of Enterprise, Trade and Investment and was considered by the Committee on 26 January. Members also have a briefing paper from the Committee Clerk, and a letter from the Minister, Mrs Foster, to me. There is also a copy of a press article on electricity market reform from Monday, 30 January, written by Mr Simpson, and a presentation from him on policy and actions from the Irish Wind Energy Association website. Mr Simpson has provided a very helpful short paper that raises a number of questions about electricity policy. I now invite Mr Simpson to make a short statement, after which members will have an opportunity to ask questions.

Mr John Simpson (Expert Witness): Thank you for the invitation, Chairperson. When we last bumped into each other, we were talking about renewable industries. I gave myself the task of reading rather more about the electricity industry than I thought would be necessary at present. I begin my introductory remarks with the assertion that there are a number of serious questions about what we do next for the electricity industry in Northern Ireland.

At the moment, we rejoice in the fact that the lights, by and large, stay on for 24 hours a day, and, when we can afford to pay the price, we use as much electricity as we need. During December 2011, we came close to a rather different outcome, as some members may know. The situation was a combination of losing the capacity to import electricity from Scotland when a cable developed a fault, and, at the same time, with little publicity, the withdrawal of a major plant in Ballylumford. If we had

had the sort of winter that we had a year ago, we would have been having serious discussions in December and January about whether the lights would stay on in some parts for some of the time.

There are a number of issues to deal with. The Chairperson referred to the CEPA report on the development of renewable resources. I also want to refer to that briefly. You have had, I think, 16 or 18 pages from that report, but it is 140-odd pages long. I am sure that those of you who are enthusiastic have taken the opportunity to do some further reading and can, in that case, help me with anything I have to say.

The report essentially says that there are some immediate questions to answer if we are going to build up and use a renewables capacity. Chairman, you might well challenge whether the questions are immediate, because you could answer that we are alright for the moment. We are talking about maybe changing the system for renewables by 2017, with grandfathering arrangements until 2037. However, it is important to say that is not a reason for standing back and going slowly.

The London authorities, or the Great Britain markets — there is ambiguity about whether we are talking about Great Britain or the United Kingdom on these issues — have made up their minds on where they are going with a new system for renewables: changing it by 2017 and then grandfathering for the remaining period, but switching to a different method of paying for renewables. On this island, the South of Ireland is well set for its own system of paying for renewables, but it is not the same as the London system.

We could argue that we will keep our present renewables obligation certificate (ROC) system because that is our method. That would be a recipe for making our electricity more expensive. Some of you would probably say that it would be much more expensive. The reason why ROCs operate satisfactorily for us at the moment is that they are administered on a basis that gives Northern Ireland an advantage over Great Britain. We sell our ROCs anywhere: to the authorities in England and Wales, the Scottish authorities or to our own generators. Consequently, a very high proportion of the ROCs that we earn are sold across the water.

However, the need for ROCs in Northern Ireland is less because we have a lower proportion of ROCs required as the pay-in of renewable quota to the generators. Consequently, at the moment, what we earn from our renewable obligations is unusually favourable. Any change is likely to take that away. The CEPA report does not doubt that that will disappear. It persuades me that Northern Ireland could then develop its own stand-alone arrangements, but stand-alone arrangements are exactly what they say; any cost of putting renewables into the system will be carried by ourselves. That would be taking away from what they call the socialising of renewable costs across the United Kingdom.

So, there is a very strong argument for us to try to find an answer that keeps that socialising system in place. That leads us to the edge of the complications. If we try to get a socialising system across the United Kingdom, the first question that must be asked is whether the authorities in London are ready to co-operate. The Department of Energy and Climate Change (DECC) is our co-partner, the major partner, in the evolution of energy policy. It has just had a change of Secretary of State for some peculiar reason. We will have to ask that Department whether it is prepared to keep a socialising mechanism across the UK. We would find that easier to argue for, rather than our taking the exact arrangements there are in England, for example. We cannot do that — we do not have that advantage or disadvantage — because we are in the single electricity market on this island. This is an institutional arrangement. In principle — indeed, more than in principle — it makes a lot of sense. However, the English system is developing different trading arrangements, the so-called British electricity trading and transmission arrangements (BETTA), and those do not sit easily alongside the single electricity market arrangements.

So, we will go to DECC to say that we want to keep our renewable capacity going up, because, despite what any Minister of the Executive might think, we are actually all now committed to getting 40% of our electricity from renewables. There is a debate as to whether that means 40% production or 40% consumption, and that has implications. However, that need not detain us this morning. We are committed to 40%, and that is a commitment that carries a cost. Do not let anyone pretend that it does not. In the next 10 years, we will pay to make the renewable capacity go up, because while fossil fuels are available at today's prices or even a bit more, the chances are that we will continue to use fossil fuels, including natural gas. That is a cost that we are going to pay. DECC, having being asked to co-operate to allow a single socialising mechanism, will look at us and say that, because of the way in which we do renewables, we actually sell our renewables into a different type of market arrangement. Can we really make those compatible? The short answer is, if there is a will, there is a way. People in the industry have no doubt that, if they want to do it, it can be done. However, it is not a simple question of saying that we will do the same. We actually have to have arrangements that fit. I did not use the word "fit" intentionally, but FIT, the acronym, is something that many of us will spend long hours watching, as we watch the way in which the electricity sector develops.

The British, or the English — there is no right word politically for this; let us say the English —

The Chairperson: There has been a lot of politics here this morning. *[Laughter.]*

Mr Simpson: The English have adopted the so-called feed-in tariffs, FIT, on a mechanism that pays for renewables on what are known as contracts for difference. You and I, I hope, do not need to spend a lot of time working out the arithmetic. Let us accept that they can do the sums and that they get them right. What of the contracts for difference system? When you look at the CEPA report and its conclusions, you will see that CEPA has no doubt, as I have no doubt having read the report, that the type of FIT arrangements in England are the type that we would want to use, particularly if we can share the socialising element. We ought to be saying that. You could say — as I suspect the Minister might, were she here — that we do not need to rush, we are thinking about it. However, the longer we wait to make up our minds and negotiate to get the answer, the longer people looking at the prospects for renewables in Northern Ireland will say that they are not really sure where we are going because we have not made a definite statement. We will then lose the momentum of the investment that is potentially there.

Let me make one other comment about renewables. To get to 40% production or consumption of renewables, there are two different figures from the different documents available to us. CEPA is saying, from its calculations, that Northern Ireland is heading towards 2,000 megawatts capacity for renewables. I suspect that that is a bit of an overstatement. The North/South arrangements, through the Systems Operator for Northern Ireland (SONI) and EirGrid, say that we can get to 40% on the basis of about 1,500 megawatts. It may be a question of who gets it there at what time. However, whatever the figure, it is a higher figure than where we are now.

However, there is a significant development around that. When I read the CEPA report, I see that, to get to the 40%, it is working on the basis of ultimately, but maybe not by 2020, getting to 2,000 megawatts. To get there, it talks about ending up, later in the decade and into the next decade, with major capacity from tidal energy, whether that is off south Down or the north coast, and a major contribution from biomass. It is important to mention those, because when you get them into the system, you make the renewables more expensive. We will have to compensate for tidal power at the higher rate. It looks as if we will compensate for biomass at a rate that is higher than that for simple land-based wind farms.

One of the reasons why the CEPA report comes up with an answer that says that Northern Ireland is starting at the lower price and heading for a higher price, even under the best arrangements, is that we are heading towards using more of the capacity from an expensive source. We must have a debate about whether we could get to 40% electricity from renewables without going for the more expensive resource. I will take the words of the experts, who are saying that we probably could not.

We are facing a situation in which we need DECC to allow us to have a socialising mechanism for our extension of renewables. To stand alone, we would have to admit that it is going to be too expensive or, alternatively, that we should go for a lower proportion because the 40% target is out of the question. Yet, we are subscribing to the 40% target now.

We have a major issue to face. We are not going to learn any more about the facts. Let us now get on and reach a conclusion. That takes me to another interrelated problem. I do not know how often you have spoken, formally or informally, about the extension of the carbon emissions tax to Northern Ireland. I can tell from your faces that that is an area of domestic expertise.

Dr McDonnell: I read about it every night before I go to sleep.

Mr Simpson: It is quite a serious issue. The Treasury issued its conclusions on carbon emissions taxation in March 2011. In its consultation, it was asked what it was going to do about Northern Ireland, because there is a little difficulty. I will come back to that difficulty, but I will quote from the Treasury paper. It is significant, because it is from the Treasury, not DECC. It is a tax matter, not a departmental policy matter. As a tax matter, the Treasury was asked what should be done about Northern Ireland, as a carbon emissions tax would have a different impact because we have a single market rather than the English, or British, market. I will quote from the Treasury's report; how sympathetic does this sound?

"The carbon price floor is a UK-wide policy. It will drive further investment in low-carbon technologies."

That is the purpose of the policy in GB.

"The Government will monitor the interaction with the SEM and Northern Ireland's commitment to higher level of investment in renewable electricity."

They are going to monitor it.

"The Government supports the Northern Ireland economy and will continue to work with Northern Ireland Executive."

Warm words. I do not read that paragraph as a strong, sympathetic reaction.

I will reinforce what I just said, Chairperson. As part of the Treasury consultation, I was invited to read the submission from the Northern Ireland generators, who own Kilroot and Ballylumford. Their paper is on the Treasury website.

Their conclusion is quite serious in that they argue that the imposition of the carbon emissions tax on a GB basis would seriously disadvantage the operations of Kilroot and Ballylumford, because of the single market in Ireland. The disadvantage would be such that the owners of the company believe it would threaten the continued existence of Kilroot and do enormous damage to Ballylumford.

For those of you who follow the situation, I will just add a sentence. The impact is most serious if Kilroot is the most expensive generator that has just been scheduled into production. If it is scheduled into production but they have to pay the emissions tax, that will take the tax out of the profits and probably make it unprofitable, because Kilroot is at the high end of the costs on this island. Kilroot is at a disadvantage today anyway and its long-term future is in doubt. However, the extension of the carbon emissions tax would turn that doubt into something a bit more pessimistic. I understood that that was the situation at Kilroot, but I was then told, and I read in the paper, that it also applies to Ballylumford. Ballylumford is taking 500 megawatts of generation out of use in 2015 under the requirements for emissions of heavy fuel oil. If those stations become unprofitable and reduce capacity, the owners, AES, state that, in relation to planning for and capacity on this island, there is no proposal for any replacement large-scale generation over the next 10 years. Such is the view of the market at the moment that no one is making a proposal to do it.

Some of you may remember that an extension of 400 megawatts in Kilroot was talked about. SONI makes the point, and I know this from conversation, that the owners, AES, no longer regard that as an active proposition. It is off the table. It may not be very far under the table, but it is off the table. Therefore, we are facing a situation where, if we do not have something that maintains the present relativities in the power system, we will lose capacity in the North. That would mean that by around 2017, the majority of electricity used in Northern Ireland would come from south of the border. Some will come from the Moyle interconnector, which is now an important asset, but the balance of trade on the island could be tipped very significantly. If it were the right economics, I could say that that is what happens when you trade, but, if it is done for man-made reasons of taxation, it is a distortion.

I will give you one further thought, and then I will stop talking. Critical to all of this is the fact that the capacity to move electricity around this island has got to increase. That is already costing us a large sum of money. At the moment, we have the equivalent of a fairly minor low-level connection through south Down on the interconnector. We are now six or seven years late in building the planned connector between Tyrone and Cavan. I do not know how your Committee can sit here so quietly, instead of going to the planning authorities and mounting a protest at the front door, telling them that they are penalising the population of Northern Ireland.

The present situation with that planning appeal is — I told myself I must not use extreme words when I am talking to you — not good. Those of you who want to substitute another word there; fair enough. First, the authorities made a mess of getting it in place. Secondly, we are facing public opinion, not necessarily a majority of public opinion, but a noisy public opinion, that says that the wires must go underground when they cross the border, and that there cannot be any big pylons. Let me ask each of you, in your own conscience, do you remember how many pylons you drove past as you came to the Building today? Could you tell me immediately? The next time you are driving between here and the Moy, now that they might be thinking of putting this pylon up, think about whether you would say that that disturbed your view of that very romantic drive to the west of Northern Ireland. You can tell that I am completely neutral in my assessment. *[Laughter.]*

We are in a position in which we are facing a planning application to put the wires underground, at six times the expense of putting them overground. We are going to put them underground in the country, where very few people are living, but the electricity will then come overground as it comes near any cities so that it can go into those cities. There is no logic to that. That paints a picture. We need to solve the issue of the Tyrone connector. We need to solve the issue of carbon emissions taxation. We need to decide what method of incentivising renewables we intend to use. The fact that all those issues exist at the same time makes me uncomfortable.

The Chairperson: Thank you very much. You have raised a few items for discussion.

Do you have any idea of what the additional cost might be of putting the new North/South interconnector underground?

Mr Simpson: The short answer is that I am not a master of the arithmetic there. However, the comment made by people whose judgement I respect is that it would be six times more expensive to put it underground. That is not really in dispute. Those who want it underground say that it is worth doing.

The Chairperson: At this moment in time, is the lack of an interconnector actually costing us money?

Mr Simpson: Yes, it is costing us money, even today. At the moment, we are operating a single electricity market, which is, to use the word that they use, constrained. That means that, if the single market were functioning properly, we would be buying electricity cheaper from other generators. In our circumstances, that means that we would be buying more electricity from the South, because it has got more modern plants. The estimate is that the constrained costs at the moment are £25 million a year. You and I, as Northern Ireland consumers, are paying for that.

The Chairperson: I want to ask you about the CEPA report. The Minister has written a letter to me as Chairperson. In as far as I can read her mind, her understanding is the same as my understanding. Her conclusion on the report is:

"The Feed-In Tariff with Contracts for Difference ... proposed for the GB market could work in Northern Ireland within the context of the SEM."

Do you agree with that proposition?

Mr Simpson: The short answer is yes, it could work. None of the technical people disputes that. Indeed, even today, a meeting is taking place in which the people who know about the technology of the power industry are working on proposals so that they can make the single electricity market in Northern Ireland compatible with the BETTA system in England, which would then facilitate more cross-border trade.

What has become very obvious in the past year — particularly for me, and maybe for others — is that such is the value of the interconnectors that, prior to the little incident late last year, we were importing more than 20% of our electricity from Scotland on an average basis. When the new east-west interconnector is opened down South — a contradiction — the island will get the benefits of electricity from Wales, and nobody is going to mention the fact that the nearest power station on the Welsh side of the interconnector just happens to be the nuclear one. So we are going to ask whether someone can make sure that the electricity that comes over the wire has the colour in it that says it is not nuclear. *[Laughter.]*

You were reading the Minister's letter —

The Chairperson: I just wanted to go on to another aspect of the letter. She also says — this is her interpretation of the report —

"The costs of establishing and administering any replacement to the NIRO should be socialised across all UK consumers (this is currently the arrangement with the NIRO)."

She is saying that any such replacement should be socialised across all UK consumers. Would DECC agree with that?

Mr Simpson: If I were in DECC, I would say that you are asking us to pay part of the price of a system that is not the same as ours. They have done it until now because the renewable obligations systems are the same. The precedent has been established, and if I were in the Minister's position, I would say that it is no big change if we simply devise a mechanism. We have the difficulty of setting the price and the preferences that we give to renewables. We will set the same relative preference for different renewables as they do in England, but they will be around a price that is going to fit our circumstances. Nevertheless, in so far as it costs something, because of the contracts for difference, it will, in principle, be the same bill in each area. It can be done, and we all ought to expect it to be done.

The Chairperson: Where do you see DECC's resistance coming from? Is it simply a matter of negotiating the right price, or is it something more fundamental than that? I am not quite sure.

Mr Simpson: They will want to do a model of what it might cost. They will want that modelling to satisfy them that we are not getting an undue subsidy through the back door. At the moment, they would argue that we have an arrangement that gives us an advantage — call it a subsidy — because of the quota for renewables that we have to feed into generators. They will say that they want to make sure that there is a level playing field, and, therefore, the technicians will have to get at it. Now, the moment that you send that to the so-called technicians, there is another CEPA report in the offing.

The Chairperson: It is clear that we have an advantage at the moment. If we move to a new system, it is almost certain that we will lose that advantage. The knock-on effect of that is to increase costs as far as the consumer is concerned. Is that right, Mr Simpson?

Mr Simpson: In summary, we are in an advantageous situation at the moment, which is going to be lost and will cost us something. That cost will be at its lowest if we have the system that, the Minister now says, could work. Any other stand-alone answer will mean that the cost goes up. There are other methods of inventing a FIT. We could all give ourselves a lazy bye ball and say that people have proved that the contracts for difference method is the best way to do it.

Mr Agnew: Thank you for your presentation, John, and the considerable amount of work that you have done on this issue. I agree with what, I suspect, you are pointing to: that a FIT contract for difference is the only realistic way forward. Although I do not have the ear of the Minister, I suspect that it would be her preferred way forward. We should have been doing it before the ROC system was introduced; the evidence was there then. Obviously, however, Northern Ireland has done well out of that system.

In relation to the turnover, you mentioned investors. The sooner we make a decision, the sooner the investors can gain confidence, so it makes sense to move quickly on this.

I see the changeover having an impact in three different ways: it will have an impact on consumers, both business and domestic; it will have an impact on the renewable energy industry; and taking that all together, it will impact the economy as a whole. I am interested to know how you would see those impacts working if we move from the ROCs to the feed-in tariffs, as I would expect us to.

Mr Simpson: There are a number of themes running parallel in the points that you made, but the important issue for the local renewables industry is whether we should be going for the more expensive types of renewables with a higher premium to attract them. I have not seen it satisfactorily argued, nor is there a definite conclusion, that we should have 300 megawatts from tidal sources off south County Down, although that is attractive. Similarly, engineers would say that Rathlin sound is a wonderful engineering opportunity, but we may end up having to pay the equivalent of four or five ROCs per unit, to use today's terminology. Do we really want to up the cost to that extent?

That leads us to the question of whether we really want to reach the target of 40% of our electricity from renewables. Is that too high? Government commitments North and South of this island are going in that direction. We are saying that, as good citizens of the world, we think this is necessary. To get to 40%, if that target is not going to shift, we should be considering whether we should have another 400 or 500 windmills over the Sperrins, or coming in over the hills around Bangor.

Mr Agnew: We love our wind turbines.

Mr Simpson: There is a question to be answered, and it is the aesthetic or the environmental one. The argument is that, by the time we get to, say, 1,200 megawatts of land-based windmills, there is a price to pay in what we are doing to the scenery and that environment. I am prepared to wait to argue. I am prepared to say that we do not need to rush to get to the 2017-18 marine energy target just yet. We can wait for a bit more evidence. However, there is an industry there, and the interesting thing is that there is a queue of people prepared to insert more renewable energy into the Northern Ireland system, as you know. We may get to the point where there is a question about whether the system can cope with it.

There is a major issue: if we do not get to a position whereby we can interlink the GB grid with the Irish grid, we will be constraining the use of wind energy when there is plenty of it, and we will be looking for more of it when there is not any wind. If, on the other hand, we have good interconnectors, there has to be such an arrangement that the electricity flows almost without hesitation as the advantage shifts from wind to other sources. That means we can become a small part of a big market, which is the GB grid. To say that we will have 40% on the Northern Ireland grid, and that it should be stand-alone, would mean that on some occasions we would have to be up to 60% or 65% renewable. On other occasions, we would be down to 20% or 25%. That becomes an engineering nightmare, if not an impossibility.

Mr Agnew: We had quite a good presentation from SmartGridIreland on the potential for upgrading the grid that we have. There is recognition of the need for improvements just to keep the grid running, because it is old technology. We can make further technical improvements to it if we so choose.

I appreciate what you are saying, but on the shift from ROCs to a feed-in tariff, regardless of the percentage, what are the pros and cons for the different interest groups?

Mr Simpson: I am tempted to ask you the question the other way around. Which interest groups do you think would object to the change? If it is done properly, it ought to be on the basis that there are two methods of doing the same thing, and there should be no difference. I cannot see an inherent disadvantage for a potential investor. I suppose that the investor is the first one to think about, because you are looking for the capacity. If you are then going to use the capacity, I do not think that there is any difference.

It will be a matter of making sure that the arithmetic of the contracts for difference is reasonable to investors. The investors are out there today, waiting. Indeed, not only am I mildly critical of planning in Tyrone and Cavan, but the investors are more than mildly critical of the fact that, in order to get connection to the grid, the people who are planning the grid are saying that they must create bunches of renewable investments that all feed into one box, which then goes on the grid. However, we are not very far down the road to doing that. Logically, the essence of the system on this island has to involve us collecting wind energy from Donegal and Tyrone, some of which should be flowing south, and designing a lot of capacity to allow wind energy to trade across the North, compensated for by interconnectors to Scotland. That sort of thinking is growing, but it is not reflected in investment plans.

There is a downside to that. At the moment, the regulator is considering the bid from Northern Ireland Electricity (NIE) for capital investment in the grid for the next four- or five-year period.

Mr Flanagan: It is a five-year period.

Mr Simpson: NIE has submitted bids that include maintenance of what is there as well as some extension, amounting to about £800 million over that period. NIE has an interest in not spending more than it needs to, but the regulator will not want consumers to pay for more grid capacity than we need. I have listened to the discussion, and if you were to ask the regulator about where we should be in relation to the 40% target, he would ask what extra capacity is needed and whether that has been planned for. The danger is that we are in a period when we are doing incremental little bits. I am not competent in what I am about to say, nevertheless: we have little bits of 33kVA wires all over the countryside, but very few 110kVA wires, yet we may need a major 110kVA wire going from the equivalent of the Moy across to the Belfast area and on to the interconnector. But we are not planning it yet, never mind the 275kVA wire needed for the North/South interconnector.

Mr Agnew: May I ask one more question?

The Chairperson: Please be brief; I want to allow other colleagues to come in.

Mr Agnew: Obviously, this is an area of interest for me. You mentioned incentivising tidal power and offshore wind. We have seen the technology that is being used in Strangford lough, which is the first of its kind in the world. Any business would look at its investment in light of how it would pay off over the longer term. When you compare the incentivisations required alongside the rising prices of oil and gas, which are inevitable, especially for oil, would you not see this as a good investment for Northern Ireland over the longer term? The market was incentivised at the outset, but is now at the stage that incentivisation is quite low, because it is already quite a mature market. Ultimately, that is where we are seeking to get to.

Mr Simpson: I cannot be sure, but I do hear the statement that renewables will become more viable in their own right over time. I hope that that is true, but I cannot prove it.

Mr Agnew: The ROCs for wind have gradually decreased.

Mr Simpson: Earlier this morning, somebody mentioned the f word: fracking. There are obviously very major discoverable resources of natural gas. I do not think that we can be so self-assured as to simply say we do not want that.

It is interesting. The Corrib gas field is going to be a major contributor to the gas supply on this island. I think that engineers there have very nearly solved the problems of getting that gas ashore, despite the protests and delays at Belmullet. The existence of the Corrib gas field, which is going to produce gas under pressure with a certain amount of natural pumping, leads me to think that, although whatever is under Leitrim and Fermanagh may require different technology, that is not necessarily unacceptable technology. If it is technology that can be used properly, based on scientific knowledge, we should not turn away from it. Indeed, if we turn away from Fermanagh, well, you know what they are like in Leitrim: they would have the hole dug tomorrow. *[Laughter.]*

Mr Frew: John, thank you very much for your presentation and your answers. It has been very entertaining and informative, all at the same time.

I have a big issue, which is well worn out, with our grid. As it is, the grid sits with that target of 40% electricity from renewables. We all need to get to that 40%. I know why the Department has made the target so high and ambitious; it is because everything will fall down from that. I also have an issue with the cost of renewable energy. Until it comes down to a cost that is acceptable to the consumer, it is not going to happen. It will not happen until people can, at least, make sufficient savings or money out of it, and I am talking about the consumer. I am concerned that we could be seen to be lumping all that 40% on to wind. I do not see that target as achievable, in relation to the timescale or the practicalities. Have you done any work on the breakdown of that 40% as an achievable target? How much do you think that wind contributes to that target?

Mr Simpson: The full volume of the CEPA report sets that out and makes some assumptions, so I will not take credit for what CEPA has done. The essence is that we are working to get to a total of 2,000 megawatts by whatever the date is. Of that, I think that about 800 or 900 megawatts are coming from biomass, marine offshore and marine underwater. Those are the expensive sources.

I have taken the view in the recent past that I did not see enough momentum to make me believe that we would get to 40%. I know the approval rate for the onshore wind farms, but, on its own, that will not do it. More recently, the owner of the foreshore, the Crown Estate or whoever it is, said that permission will be granted for this or that, but, again, it is now 2012. It is an optimist who says that we will get that done as quickly as these assumptions suggest. You are right to put your finger on it and ask what is realistic, but the other question is whether 40% is ultimately going to prove too expensive. If we manage to get consumers in Britain to carry part of the cost, that will make it more attractive. If we end up paying for it ourselves, I think that, around this table, minds will change.

The short answer is that I share your line of questioning. There is no definite answer that will guarantee those things. I accept the figure of 40%, because, reluctantly, I have become persuaded that the global warming issue is serious. I was slow to grab it, but it is there.

Mr Frew: I have one more question about the security of supply and economies of scale. You talked about a GB market and a grid that suits us all — the Republic of Ireland, Northern Ireland and GB as a whole — but we should also be contemplating interconnectors with mainland Europe and how they could help. You talked about the problems with our power stations. I can understand that, because I have worked in both power stations and have seen at first hand their operating and, to some degree, their inefficiencies. Do you agree that interconnection and interconnectors are now nearly more important for Northern Ireland than power stations?

Mr Simpson: Yes. Psychologically, I suppose we would all feel that we would be safer with a power station than with an underwater wire, but the short answer is that interconnectors are now the big thing in the engineering of electricity supplies.

You gave me the excuse to mention the interconnection with Europe, which is a major issue. You will shortly become more accustomed to the use of the initials FUI. We are going to have a group of European countries co-operating on all these things, and FUI stands for France, the United Kingdom and Ireland. There is, even now, discussion going on as to how the British system can integrate to allow the flows to France, then through France to here, and then how the Irish system relates to that. The interesting thing is that the Irish system as it is now is closer to being able to work with the French system. The British system is the one that is on the other foot.

Mr Frew: How bizarre is it that we have a connection with the Moyle interconnector in the North of this island, and we will soon have a connection between Wales and the Republic of Ireland, yet we do not yet have a sufficient connection between the two jurisdictions on this island? How bizarre is that in this day and age?

I share your frustration with regards the interconnector, by the way. I think it is something that we definitely need. It will bring savings to our consumers of up to 20% or 25% in a single energy market. I suppose this is not so much a question as a statement, but I cannot stress enough my frustrations regarding the grid system that we have presently. The interconnector is the only way to go. My problem with going underground is that it is much more expensive to lay, and there will also be problems after it is laid with regard to maintenance and planning. If you want to increase industry and population centres, you dare not put them on top of a cable. You can put them under a cable, but not above.

Mr Simpson: There is no reason why, with interconnection, electricity costs should be significantly higher here than in England. The existence of interconnection should create a levelling in the market, and last year, that was happening. We would not have been importing 25% of our electricity and leaving Kilroot not burning on the basis that it was cheaper to bring it in. Interconnection was showing that it was working. However, it does mean that the gap in electricity prices ought to narrow. We should now be asking the regulator to hold on a minute and, when doing their regulatory functions, to compare the difference and tell us by how much they can get that gap narrowed.

Incidentally, I talked about constraints costing £25 million. Renewables, at the moment, earn £36 million a year for Northern Ireland — as consumers we are not paying that — out of the socialising mechanism run by Ofgem.

Mr Flanagan: First, I will go back to the fracking issue, very quickly. You have said that you are not opposed to it, John, but would you encourage taking a very cautious approach to the use of such a new and emerging technology?

Mr Simpson: Yes.

Mr Flanagan: That is all that I wanted to hear. That is me finished on fracking.

Mr Simpson: Drill a hole and get the evidence.

Mr Flanagan: We are talking about the interconnector. I have never heard anybody try to argue against the need for an interconnector between the northern part of the island and the southern part. However, there are serious concerns among local residents, and they need to be addressed. The report published by Pat Rabbitte has outlined that undergrounding the cable is both possible and practical. You said that putting it underground would be six times more expensive. That report outlined that it would cost only — I do not use the word only lightly — three times as much to go underground; a figure of €500 million to go underground versus a figure of €167 million to put it overground. Putting it underground is a possibility, and it would still save consumers money in the long term. With the development of such a project, the needs and wishes of local communities must be taken into consideration. There are serious health concerns in that area that have yet to be addressed by anybody. I do not want to start another discussion on the North/South interconnector, but, if you want to come back on that, you can.

The main line of questioning I would like you to address is whether you have read Douglas McIldoon's report on energy policy here? If you have, or even if you have not, do you agree with him when he states that energy policy here is confusing and contradictory?

Mr Simpson: I agree with him, and make the same description of his analysis of what the policy should be. *[Laughter.]*

Mr Flanagan: I do not know whether I am any better off.

The Chairperson: That seems to me to be a straightforward answer. You might not like the answer, but it is a straightforward one.

Mr Simpson, I want to thank you. This has been a very stimulating, enjoyable and, indeed, entertaining session.

Mr Frew: I also said informative.

The Chairperson: And informative; extremely informative. You have given us a lot of food for thought. Thank you very much for coming along.

Mr Simpson: Thank you.

Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Electricity Market Reform: Common Arrangements for Gas and Smart Grid Pilot Project

15 March 2012

Committee for Enterprise, Trade and Investment

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Members present for all or part of the proceedings:
Mr Alban Maginness (Chairperson)
Mr Daithí McKay (Deputy Chairperson)
Mr Gordon Dunne
Mr Phil Flanagan
Mr Paul Frew
Ms Jennifer McCann
Mr Stephen Moutray
Mrs Sandra Overend

Witnesses:

Mr Shane Lynch	Northern Ireland Authority for Utility Regulation
Ms Tanya Wishart	Northern Ireland Authority for Utility Regulation

The Chairperson: The Utility Regulator will give evidence on electricity market reform (EMR), common arrangements for gas and the smart grid pilot project.

Members have a copy of a presentation from the Utility Regulator. Background documents relating to each of the three areas that we are concentrating on today are also tabled. The first is electricity market reform, the second is the common arrangements for gas, and the third is smart grid technology. A response from the Utility Regulator to the issues raised by Mr John Simpson, who addressed the Committee, is tabled. It relates to the electricity market reform element of the briefing. A letter to the Committee Clerk from Mutual Energy Ltd regarding infraction proceedings on gas regulation is also tabled. It relates to the common arrangements for gas.

I am very pleased to welcome to the Committee the Utility Regulator, Mr Shane Lynch, and the electricity director in the Utility Regulator's office, Tanya Wishart. You are both very welcome. Thank you very much for the documentation that you supplied to the Committee. Without further ado, I will ask Mr Lynch to make an opening statement, and we will then move on. I am not rushing you at all; sorry if I am giving you that impression.

Mr Shane Lynch (Northern Ireland Authority for Utility Regulation): We will need about 10 minutes for the presentation, and then we will be happy to take questions.

The Chairperson: Yes. These are complex subjects. As I said, if I gave the impression that I was rushing you, I did not mean to.

Mr Flanagan: Before you start, Mr Lynch, may I check that you will be going through the PowerPoint presentation that we were given?

Mr Shane Lynch: We were planning to speak to the PowerPoint presentation, but I am happy to pick up on our written response to the questions that Mr John Simpson raised. I am also happy to take any other questions on energy regulation.

As you described, Chairman, the three topics in our presentation are energy market reform, smart grids and common arrangements for gas. I will speak to energy market reform, my colleague Tanya Wishart will speak to smart grids, and then I will come back and speak on commons arrangements for gas.

Energy market reform is an initiative that was started by the Department of Energy and Climate Change (DECC) in GB. It commenced with an energy White Paper last year. The Department of Enterprise, Trade and Investment (DETI) in Northern Ireland is looking at the issues that DECC raised. In all but one of the issues, we in Northern Ireland can do our own thing. One of the issues relates to what we call the carbon price support, which is effectively a carbon tax. My understanding is that we do not have devolved powers in that regard. However, it is our choice whether we adopt the other three or any variation of them. DETI is consulting on the issues. They are policy issues really, but they are closely aligned with regulatory issues. Therefore, we are clearly a central stakeholder in all of this. We work closely with DETI and advise it on regulation issues.

I will quickly take you through the four issues on the coloured slide that shows the graphs. The first one is a policy that is driven towards obtaining improved sustainability in energy production and consumption. So, it is really an additional tax on carbon producing generators. Renewable generators would avoid the tax because they do not produce carbon. We already have a carbon tax due to a European directive called the EU emissions trading system (EU ETS). That is already included in the price of electricity in Northern Ireland and right across Europe. The little blue bits at the top of the graph, starting in 2013, represent the additional tax. That is a forecast of what the additional tax is likely to achieve.

The policy thinking in the UK is that the European tax does not go far enough. From our perspective, the fundamental policy issues are sound in that they create a disincentive for fossil fuel generation in the long run. However, in the short to medium term, they could have a disproportionate effect on a small place like Northern Ireland, where we are still very dependent on fossil fuel generation. All power stations in Northern Ireland are run on fossil fuels; two of them run on gas and one on coal. In a very small market place like that, there are other key policy considerations such as security of supply and price. With any policy initiative such as this, we have to be very careful that it does not have a disproportionate effect and does not, for example, drive the fossil fuel generating plants out of the market too soon. That is important, because we are not going to be able to run the system on 100% renewables. We are supporting DETI in its work with DECC to try to take those considerations on board in their discussions as part of that work.

The second issue relates to a carbon support mechanism rather than a carbon tax. Effectively, from a policy perspective, there are two ways to encourage renewables. One way is to tax non-renewable plants and the other is to provide support mechanisms for renewables. In Northern Ireland and GB, we have the renewables obligation certificate (ROC) regime. Renewable generators get that added support. The thinking in GB is to change that mechanism to a different mechanism called a renewable energy feed-in tariff (REFIT), or feed-in tariff (FIT), mechanism, which is designed to stabilise the price of renewable energy over the longer term. At the minute, renewable generators will get ROCs, but they also get the wholesale market price for the electricity that they produce. That wholesale market price varies every 30 minutes, which is what you see in the graph. People who invest often prefer stability, and this regime is designed to reduce the investment risk. For us, in Northern Ireland, adopting that mechanism or something similar to it is optional.

The third one is known as the capacity mechanism in energy market reform. The graph shows the amount of generation surplus. By that, we mean the amount of surplus supply that we have over peak demand. That is forecast to reduce quite significantly in GB, and the graph shows that by 2019 the margin is likely to be as low as 10%. That is very tight. In a market the size of GB, you would typically prefer to have margins of between 15% and 20%, just to give that security of supply that we think we need. That mechanism is designed to ensure that the capacity margin does not fall off too low. It is really a fixed payment that all generators in the marketplace get for simply being there, and it is seen as a contribution towards their fixed costs, which are their investment costs and their operating costs in the long run.

Finally, the bottom left-hand corner of that slide shows another tax, if you like, or standard. It is an emissions performance standard against generators that produce carbon. It sets a limit, taking a belt-and-braces approach that you cannot produce more than 450g of carbon per unit of electricity. Yet again, it is another regulatory standard that is designed to encourage renewables and discourage fossil fuels in the market.

At the end, I will take questions from members. I will not say any more on EMR, other than that DETI is consulting on it, and that, at some point, it is likely to lead to the need for legislation in Northern Ireland. I turn to Tanya to pick up on smart grids.

Mr Flanagan: Mr Lynch, is DETI carrying out an active consultation?

Ms Tanya Wishart (Northern Ireland Authority for Utility Regulation): It has closed.

Mr Shane Lynch: It closed at the end of January.

Ms Wishart: Good morning, ladies and gentlemen. I will talk about smart grids, covering three main points: the role of the regulator on smart grids, the current position of smart grids in Northern Ireland and the vision for the future of smart grids in Northern Ireland as I see it.

To clarify, as a regulator, our role is to implement government policy, so, obviously, the Department is responsible for setting the policy, and we interact with it on that. However, we implement the policy rather than set it. Our role is to approve the investment requirements of regulated companies to ensure that that policy is implemented. I have an engineering background, so I have a personal fascination with smart grids and the technology. However, my role as a regulator is to look at the needs for the investment and the value that consumers will get for that investment, because it is consumers who will pay for any smart grid technology that is implemented in Northern Ireland.

I have concerns about the costs of any investment, but my duties include the requirement to protect consumers, and, as part of that protection, I need to consider security of supply and the sustainability of networks going forward. It is important to state that I personally believe that smart grids have a very important role in delivering the value that we seek for consumers in Northern Ireland.

Where are we at the minute in relation to smart grids? The network in Northern Ireland has elements that are already very smart. The electricity supplies that we all enjoy are controlled 24 hours a day, seven days a week, and many automated processes currently exist. However, the smartest part of the network control systems is the man in the middle, and I can say "man", because, as far as know, no control engineers in Northern Ireland are female. That person's role is to manage the flow of electricity through the wires.

When it comes to smart grids, a lot of this technology already exists. We are really talking about applying it in new ways to get greater value for consumers. We want the various pieces of equipment that we have in the network to talk to each other, remove the man in the middle and have more automation. It usually includes smart metering and an element of conditioned monitoring of existing equipment. I also want to highlight to the Committee that large energy users in Northern Ireland have metering that I consider smart already, and one third of domestic costumers in Northern Ireland have prepayment meters and, therefore, have quite detailed knowledge of their own electricity consumption — how much they are using and when they are using it — if they want to access it from the metering that they have in their housing.

There has been, as I am sure you are aware, substantial money spent worldwide on smart grids. In Northern Ireland, we have approved a trial, and NIE is carrying that out in Coleraine. That started in January and is intended to last for two years. In that trial, there is smart metering and conditioned monitoring of equipment, and NIE is developing technologies that allow the various bits of equipment to speak to each other and to speak to its existing IT systems. The idea behind the trial is to reduce the need to build new lines in the future and to extend the life of the existing equipment with a view to saving money for consumers. It is back to the value added for consumers, who pay for any investment.

A smart-metering trial is also being developed to look at the impact of smart metering on vulnerable customers. We want to ensure that we maximise the value for vulnerable customers, as that is a consideration in Northern Ireland, and ensure value for money going forward. The Utility Regulator fully supports both of those trials. However, it is worth highlighting that both trials have hit technical snags.

So, where do we see smart grids going to next? We want to monitor closely the trials that are taking place in Northern Ireland. We have regular reporting from those trials so that we know the issues that are being raised. We are aware, as I am sure you are, of the substantial investment that is being carried out in GB as part of the low carbon network fund. We and NIE are watching very closely the progress on the investment that is taking place there and elsewhere in the world. We see Northern Ireland as a fast learner. I emphasise "learner", because a lot of the trials are having significant technical problems, which is why there are trials. However, we see benefits in low-hanging fruit that can come out of the trials and can be implemented quickly to add value. However, we are keen not to fund a white elephant.

So, in summary, we will approve investments that we see as adding value for consumers in Northern Ireland. We have smart technology in Northern Ireland, but we see a need to improve the level of smart technology going forward to add value for consumers.

The Chairperson: Thank you, Ms Wishart. Do you want to go on to the gas now?

Mr Shane Lynch: Yes, I will speak for two or three minutes on gas. This is about a project that we referred to as common arrangements for gas (CAG) for Northern Ireland and Ireland. CAG is not exactly the same as the single electricity market (SEM) on the island. SEM is a wholesale market where wholesale electricity from power plants is bought and sold. CAG is not a wholesale market for gas. We import all our gas and are, effectively, what I describe as price-takers. The price of gas is set elsewhere in the UK and Europe, and this island is an importer of gas. We have one interconnector from Scotland into Northern Ireland, and we have two other interconnectors coming in north of Dublin. There is also a North/South gas pipeline now on this island, and we have a similar gas network in GB. So, effectively, we have a ring of gas pipelines on the GB island and on this island with cross-sea interconnectors.

Currently, we have two different sets of arrangements for operating the gas network in Northern Ireland and in Ireland. By and large, we operate independently and shift and trade gas from A to B independently. The whole concept behind CAG is to take those two operating regimes and combine them in one system. The thinking behind that is that those who want to bring gas onto this island and sell it in the North and South prefer a bigger and single system. Such a system is simpler and there is a single code of operation, etc.

The creation of a bigger trading place for strategic reasons will also lead to the opening up of other and bigger opportunities. For example, a couple of developers are seriously looking at creating a gas storage facility in Islandmagee. You will have seen the recent announcement from BP, which is a partner in one of those projects. The whole rationale behind storing gas is that the price of gas can shift significantly from summer to winter, so, in economic terms, there is an arbitrage to be played if you can store gas. It is also good as a security of supply facility, and it works well with wind-powered generation; gas that can be released quickly for power generation works well in combination with wind power.

Many developers regard creating a storage facility here, where the only customers are on this island, to be for too small a market place. They want a system that combines the trading and operational arrangements on both islands across the interconnectors. That is essentially what we are trying to do with CAG.

We started the CAG project in 2008 after we had made the SEM operational in 2007. We are still working on the project and do not yet have it over the line. Recently, our regulatory colleagues in Dublin, the Commission for Energy Regulation (CER), decided that it wanted to review the cost-benefit analysis of the project, and the two regulators released a statement to that effect. That review is now being carried out by CER, and we hope to have the results of it in a couple of months.

The purpose of the CAG arrangements was, effectively, to kill two birds with one stone, as they would also allow us to comply with the European internal market in electricity (IME) II directive. You may have seen some media coverage on that. The objective of those types of energy directives is to increasingly move towards a bigger marketplace and a common arrangement across Europe. We had always intended to comply with IME II through the CAG project. However, as the CAG project was delayed, we have had to fast-track plan B and accelerate some of the requirements of the directive. We are doing so as a separate path and hope to have those completed by July or August . We have always worked with the European Commission on the basis that we would deliver compliance with that directive through the CAG programme. It recently took the view that the CAG programme was taking longer to deliver than was first anticipated. Hence, there has been a threat of infraction proceedings against the UK and Ireland. We are working closely with DETI, CER and the Department in Dublin, and we do not think that it will be an issue. We are quite confident that it will be resolved and that the arrangements will be in place this summer.

The Chairperson: OK. Is your presentation complete? Thank you very much, Mr Lynch and Ms Wishart.

I want to deal with CAG initially. You are really saying that there has been a bit of delay in its implementation, but work will continue on it. The delay seems to be with CER in the South. Although the danger of infraction proceedings is receding, I suppose that it is still present. Are you saying that work is ongoing on that and should be completed in a number of months?

Mr Shane Lynch: Yes. We are confident that the work will be competed and we will be compliant.

The Chairperson: OK. Colleagues, I am a wee bit conscious of time. I do not think that there is much more that we can explore with regard to CAG unless colleagues have any further points to make.

I am very interested in what you told us about smart metering, Ms Wishart, and, in particular, prepayment meters. Is that a form of smart metering?

Ms Wishart: It is, yes.

The Chairperson: It may be a lower form, but it is a form of smart metering. What was your point about it? Did you illustrate simply that we are making inroads into smart metering already?

Ms Wishart: One thing that smart metering is seen to do is make people aware of their energy consumption. Therefore, they can make informed decisions that will save them money. They can decide when and when not to use electricity. What I am really flagging up is that quite a large population in Northern Ireland have that information at their fingertips. They may not choose to use it. However, hopefully, as people become more educated, the fact that the technology is already in their homes means that we do not need to spend money to provide that information to them. We can make them aware of that information. They can choose to use it now.

The Chairperson: Therefore, in a sense, you are conditioning some elements of the population to the whole concept of smart metering through prepayment.

Ms Wishart: Well, I am not sure if I would want to say "conditioning" —

The Chairperson: I am not using that word in any sinister sense. *[Laughter.]* People are becoming accustomed to it.

Ms Wishart: I think that people are becoming aware of their energy usage and the impact of it. People have different desires to manage their impact on the environment. It means that if they want to make informed decisions, we can facilitate that now. The information is available to them.

The Chairperson: NIE has put forward proposals on smart metering, has it not?

Ms Wishart: At this point in time, we do not have a policy structure for smart metering. However, you could say that we are aware that there is a direction of travel. It is important that we are positioned to get any benefits that there are from smart metering to Northern Ireland consumers. Our metering population is getting smarter.

Later in 2012, we hope to be in a position to launch a trial that looks specifically at vulnerable customers. We are really saying that we know that there is a particular issue in Northern Ireland with regard to vulnerable customers that, perhaps, is not such an issue in other places. Therefore, we do not want to duplicate other trials because a lot of good and useful information is out there that we can use. However, we want to ensure that anything that we do is tailored and addresses issues that are specific to Northern Ireland.

The Chairperson: The benefits of smart metering or smart grid are self-evident. I suppose that one of the less obvious benefits is the fact that you can use the existing grid in a better, more efficient fashion and, thus, avoid immediate expenditure of additional funds to upgrade the grid. Is that correct?

Ms Wishart: Absolutely.

The Chairperson: Why are we not just getting on with it?

Ms Wishart: I think that it is goes back to word "trial".

The Chairperson: Do we need all of these trials? It has been done in the United States and elsewhere in the world.

Ms Wishart: A lot of money is funding trials. I have yet to see one that is fully effective and does not have technical issues that are yet to be resolved. NIE has already bought equipment. It has its own unique IT systems. Obviously, it is important that it looks at the equipment that is out there. In smart grids and smart metering all those pieces of equipment need to talk to each other to automate that. They also need to fit into the systems that NIE has. The trial in Coleraine is at the first stage of looking at how those technologies can talk to each other, but it has already hit significant technical issues and is not up and going yet. We are keen to get it up and going to reap the benefits, but everybody is spending a lot of money on trials because those technical issues are not insignificant. We do not want to spend money on something that will not work. Hence, we want to fund trials initially.

The Chairperson: OK, you have the grid here. It needs to be uplifted to make it more efficient and effective, particularly for renewable energy. Why are we not progressing all of that faster? You talk about 200 meters in Coleraine. That will take two years or so.

Ms Wishart: The idea is to have the metering in and then monitor how it is working. It will not take two years to put in the equipment; it should go in quite quickly.

The Chairperson: I am saying that that period of experimentation will take upwards of two years.

Ms Wishart: It is not our intention to wait until the end of the two-year period if we feel —

The Chairperson: Just to learn the lessons.

Ms Wishart: No. It goes back to the idea of low-hanging fruit. If lessons are learnt and there are things that we can implement that are picking up quickly and will work, we would certainly do so. That may not be just from the trial in Northern Ireland. It would be any trial. The equipment standards in GB in particular — the type of equipment they use and how their networks are managed — are very similar. We hope to learn good lessons from what they are doing and implement them. We do not need to duplicate what they are doing to learn from it.

The Chairperson: OK. I will now bring colleagues in to ask questions on the smart grid and then move on to the reform of the electricity market.

Mr Frew: I thank you for your presentation. Large companies and, to a certain degree, smaller companies and any newbuild here in Belfast or anywhere else in the Province will have a form of energy management system. They will have smart metering, and they will know exactly what they are using and where and what is costing most.

I have a wee bit of background knowledge of this from my previous career, and my problem is that I do not see, and have never seen, that on the grid. You are talking about pilot schemes, but, to me, it still seems to be more customer-focused rather than about the grid itself. I know that there are plans in place and trials for that, too, but we have a grid that is ageing, and that is the same across Europe, and maybe the infrastructure is not where it should be in, say, the west of the Province.

That then leads us to the problem around renewables. We have to be much more sophisticated in how we connect the renewables, to put it that way, onto an ageing grid. I am talking about technology that will tell us the exact state of every cable, line and supply chain along the grid rather than at just the customer point of contact. Is it fair to say that, in that regard, we have slept in? Can you reassure me that action is being taken now to know where the problems are on our grid in order to fix and enhance it and bring it up to a level that will not only cater for the needs of our population but will also facilitate the growth in renewable energy?

Ms Wishart: I believe that NIE has a very good handle on the condition of its grid and knows its network very well. With regard to the control mechanisms that I mentioned, there is a distribution control centre and a transmission control centre. That is live, 24 hours a day, seven days a week and is monitoring the flows of electricity on our network. At this point in time, every meter in Northern Ireland is not feeding back to a central point, so we do not have that level of information. That is something that we may aspire to if it adds value for consumers. At the higher points of the grid, NIE knows the flows through all its major substations. It already has online monitoring there, and that comes back to the central control centre. That is needed to ensure the security of supply that we enjoy and to manage the network so that lights come on when we turn them on.

The question of whether every line should be monitored, again, comes down to cost. If there is value in monitoring down to a certain level, and if it saves consumers money, we will certainly want to do it. If, however, the impact of monitoring does not make any difference to that decision, we will not do it, because there would be no value in doing so. It is not simply a case of investing. A cost-benefit analysis needs to be carried out first. The engineer in me finds the technology fascinating, and I would love to see more being done. However, I have to consider whether an investment will add value for consumers and then make sure that it does, because, at the end of the day, they are paying for it through their bills.

Mr Frew: Do you think that the technologies that are and will be in place around the smart grid are compatible with everything that we need to do to bring on board renewable energy and all the instruments —

Ms Wishart: The technology is there. It is about getting the pieces of it to talk to each other and automating it more. If you have to make assumptions, you have to put safety factors in place. You, therefore, end up possibly spending more than you would have had you known the live figures and information. It is an evolving field. I think that the amount of money being spent worldwide is an indication of the fact that a lot of people realise that there is a need to develop it further. We obviously want to ensure that any developments that add value for customers in Northern Ireland are implemented in Northern Ireland.

Mr Frew: You touched on this question when you talked about knowing exactly where we have to spend the money at the right time. I suppose a blunt way of putting it is this: are you sure that the technology will be able to measure and assess the lifespan of a cable on a pole, taking into account the weather and all the other elements that cause cables to deteriorate, including even the electricity flowing through them? Are you saying that, by using the technology that we will have in place, we will be able to say, "We do not have to invest in this line for a further 10 years, but we will have to invest in these two lines within three years"?

Ms Wishart: The electricity grid has existed for a substantial time. The first undersea cable from Ballylumford to Larne was put in in 1934. There is a lot of historical information on how the equipment has performed, how long it has lasted and how it has been managed historically. You, therefore, do not need online monitoring to know the lifespan of some equipment. You can tell what is necessary from the historical information and the replacements that have already carried out. That is how NIE makes investment decisions currently. So, there is a lot of really good information that should ensure that investments are not nugatory in any way, which is, I suspect, where you were going with that question.

Online monitoring is a way of ensuring that people continue to have security and quality of supply and, at the same time, preventing the need to increase the amount of network. You mentioned the ageing asset base. What I would say is that the network is a perpetual asset. There has been and will continue to be continuous replacement. The network has existed for a substantial time, but that does not necessarily mean that, overall, it is an old asset.

Mr Flanagan: Thanks for the presentation on all three aspects. I think that the three topics you covered are that large and detailed that we could probably have set aside a specific agenda item on each one and have regular weekly slots where somebody from the Utility Regulator discusses them.

In respect of smart meters, you already alluded to the fact that extensive trials have taken place around the world and that quite a substantial trial took place in the South. When you said that the trial in Coleraine was not operational yet, what did that mean?

Ms Wishart: The trial in Coleraine is a smart-grid trial. It has 200 or maybe 300 meters. It has some condition monitoring, and what it is doing is getting different types of technology to talk to each other and trying to manage the grid on a live basis. When people talk about smart-metering trials, most of them relate just to installing meters and looking at the communications between the meters and the management systems, in relation to how much electricity is being used and when. So, it is a different type of trial. One of the benefits of monitoring what is happening elsewhere, including in the ROI, is ensuring that all those different aspects — looking at both smart metering and smart grids — can be brought together to get the best solution.

Mr Flanagan: Surely, given the fact that we are all part of a single electricity market, would one large pilot scheme or a trial across the island in a couple of different places, not deliver more reliable results and enable this to move forward in a better way? I am concerned that, with separate trials taking place in the likes of Limerick and Coleraine, what we are seeing is unnecessary duplication and unnecessary delay.

Ms Wishart: There is no duplication. The Coleraine trial is something very different. It is about managing the grid. The ROI smart-metering trial is about communication between meters and trying to change customer behaviours by looking at tariff structures. We are very aware of the ROI trial, and our colleagues in the Commission for Energy Regulation (CER) have provided us with all the information in relation to it. We have been involved in some of the earlier development stages. I see no need to duplicate that trial in Northern Ireland; I will get all the information from it that I need and that will add value for consumers in Northern Ireland.

The smart-metering trial that we are doing in Northern Ireland, which is probably closer to that than the Coleraine trial, is aimed at the vulnerable-customer issue. That is something that we have specific concerns about which was not approached by the ROI trial. That trial was covering an entire customer base, and it paid no specific attention to vulnerable customers. So there was a gap there, on which I felt I needed specific knowledge. I intend to plug that gap.

Mr Flanagan: As to NIE's latest price control proposal, has any funding been suggested or set aside to pilot and develop smart meters? While answering that, maybe you could provide an update on where you are with the deliberation on it.

Ms Wishart: Because there is no formal policy yet from the Department, the NIE submission talks about smart meters and it has given us information about them, but NIE has not asked for any money for a roll-out of smart metering, and it will not do so until there is a formal policy. However, we are fully aware that that policy is being developed. We expect it to impact within the price-control period, and we expect to allow moneys as appropriate, and the current deliberations will not delay it. It is not a case of us having to look at that right now. We will look at it when it becomes a live issue.

Mr Flanagan: Sorry, Tanya. When you say that there is no policy, do you mean that there is no policy from DETI?

Ms Wishart: DETI is considering that and we expect it to come forward.

Mr Flanagan: Is smart metering not one of the recommendations in the strategic energy framework?

Mr Shane Lynch: There is no policy decision, yet. Clearly, there is going to be policy on smart meters. It can vary. DETI has not fully concluded yet, but it will do so shortly. That is our understanding.

Ms J McCann: Can I ask a very quick supplementary question?

The Chairperson: A very, very quick one.

Ms J McCann: Who ultimately pays for all these trials?

Ms Wishart: Consumers pay for all of them, which is why we are watching other trials and learning from them rather than duplicating them. It is important that we do not spend money unnecessarily.

Ms J McCann: It is always the consumer who picks up the bill.

Ms Wishart: Unfortunately, yes.

Mr Dunne: Most of the members' points have been covered, but I have a quick question. Tanya, you mentioned something earlier about how domestic users have access at present to information about consumption and that they can make savings. Can you clarify that?

Ms Wishart: The current prepayment meter which NIE is buying is set up so that it can be interrogated, and you can get information in relation to your usage. It is also very easy to pick up energy monitors in B&Q, for example, so that, even if you do not have a prepayment meter, you can buy one of these devices, plug it in and it will give you information on your energy consumption and usage.

Mr Dunne: Is it not an issue that most people are paying by direct debit every month? They are paying away quietly and indefinitely, yet they do not have access to the information. I think it is an issue.

Ms Wishart: I pay by direct debit myself, so I am aware of that.

Mr Dunne: We are told that we get a discount, but we are not sure about that. *[Laughter.]*

Ms Wishart: That is regulated, so yes.

The Chairperson: I think that you just do not incur extra charges.

Ms Wishart: If you are on a credit meter, as I am myself, you do not have that same visibility, but if we were to roll-out smart metering that visibility would become apparent to you. If you wanted that visibility, you could choose to buy yourself a monitor or request a prepayment meter, if you wanted to go down that route.

Mr Dunne: In the round, the trial is very small and low risk. We are only playing at it really. Is that not the case?

Ms Wishart: It is about the technologies speaking to each other and NIE testing them against its IT systems and equipment. I would like to see it working first, before we look at investing more money, because, once the communications work for a small system, it is easier to roll it out for something larger.

Mr Dunne: Have you approved the trial?

Ms Wishart: The current trial was approved and was launched in January.

Mr Dunne: Were there plans to have a bigger trial or did you limit it?

Mr Shane Lynch: Ultimately, the results of that trial, like any trial, feed policy decisions. The policy decision to roll out smart metering for 750,000 customers in Northern Ireland would cost a substantial sum of money.

Mr Dunne: That is why 200 meters seems a small amount of units.

Ms Wishart: I should confirm that that is the trial NIE that asked us to approve, and we approved it. We did not limit it; that it what NIE asked for to test the communications and ensure that its equipment could be used for a smart grid.

The Chairperson: I do not want to repeat the point, but there seems to be a certain element of impatience around the table in relation to smart metering and, I suppose, the smart grid itself, because it seems to colleagues that we can do quite a lot with smart metering and developing the grid along smart lines. The real point that colleagues are making is that, with all the delay — we know that you have to do tests and all the rest — are we not falling behind other parts of Europe, other parts of these islands, the United States and so forth?

Ms Wishart: I do not believe so. I am very enthusiastic about it. I can see all of the benefits, and I find the technology fascinating, but, realistically, I do not want consumers paying for something if it is not going to work.

The Chairperson: Learn to walk before you start running. OK, we will leave it there and move on to the other part. The reform of the electricity market that DECC has signalled in its White Paper obviously has an impact on us here, and we have to respond to that. I think that it complicates things a bit. We were working on the ROC system up until now. We will now have a feed-in tariff system of some sort. We are presently benefiting from socialisation in terms of the ROC system, because that is a UK-wide system. Will we continue to do that in terms of the feed-in tariff? What is the position there? I am not absolutely certain.

Mr Shane Lynch: You are right, Chairperson. The current ROC regime is a UK-wide market. If you are a producer of renewable energy in Northern Ireland, you can sell your product anywhere in the UK. All that is happening here is that we are changing the shape of that market from a variable ROC price to a fixed FIT price; that is the purpose of the graph that you have in front of you. My understanding is that the opportunity will remain to sell across the UK market; it is just going to be a different mechanism. The market will stay, but the mechanism within the market will be more of a fixed-price arrangement as opposed to a variable price arrangement.

The Chairperson: Right, so the fixed-price arrangement would be the feed-in tariff?

Mr Shane Lynch: Yes, the feed-in tariff.

The Chairperson: The ROC is more variable.

Mr Shane Lynch: It has more of a tendency to vary, so it is probably more risky. A fixed-price arrangement is less risky for investors.

The Chairperson: None of the generators will be disadvantaged by this change?

Mr Shane Lynch: No, they should not be. DETI is working closely with DECC with that objective in mind.

The Chairperson: OK. The next big issue, which was raised in particular by John Simpson, is the carbon tax. Thank you very much for your note and illustration of that in your paper. The adverse impact is such that you could, in fact, have generators closing. Is that the net effect?

Mr Shane Lynch: A policy decision like that has, in my view, one plus in the long term and two minuses in the short to medium term, which can have a disproportionate effect on a very small marketplace such as ours. The plus, in the long run, is that it is designed to attract renewables and is a disincentive to fossil fuels. The two minuses are, first, that it is going to put up the price of electricity for consumers because it is a tax, and the fossil fuel generators will seek to recover that price from consumers. They will not disappear overnight; it will take a while before competition prevails and they are no longer competitive. The other minus is that, if they were to disappear too quickly, there would be a security of supply risk. For example, Kilroot coal-fired power station is increasingly going to come up against environmental legislation and policies.

The Chairperson: Could this be the final straw?

Mr Shane Lynch: Well, that is for Kilroot to judge. They know their economics better than I do, but it certainly does not help. In the long run, it all comes down to European, UK and Irish policies, all of which are focused on renewable energy. Ultimately, coal-fired power plants are going to close unless they fit clean-up technology, such as carbon capture and storage. However, all that is quite cost prohibitive at present. Nowhere in the world has it really been perfected or operationalised yet. It is one of those issues in which well-intentioned policy in the UK can have a disproportionate short- to medium-term effect in Northern Ireland. We need to watch it carefully.

The Chairperson: Why would it not have such an adverse impact in Britain as it would here?

Mr Shane Lynch: It is because, from a security-of-supply perspective, if we lose one power station, we are likely to see the lights go out.

The Chairperson: That is very reassuring.

Mr Lynch: It is a much smaller marketplace. We have very lumpy contributors to supply, and we have big power plants, relatively speaking, which can have a very sensitive disproportionate effect.

The Chairperson: Is there any way in which we can be exempted from the tax?

Mr Shane Lynch: My understanding is that DETI is exploring that option.

The Chairperson: Is that the Department's position at the moment?

Mr Shane Lynch: Yes.

Mr Frew: I know the realities of the risks and dangers with power stations and the security of supply. What is more important to Northern Ireland consumers in the medium to long term: power generation or interconnection?

Mr Shane Lynch: Good question. What consumers want in the long run are affordable prices. They want their lights to stay on, and, increasingly, they want to know that more and more of their generation comes from renewables. I do not really think that it matters where the power comes from. This is quite a small place. When you are a small island like this, interconnection is a good thing, both across the island and between the islands.

Mr Frew: And with Europe.

Mr Shane Lynch: And ultimately to Europe. It is not necessary for Northern Ireland to try to become self-sufficient in power generation. It is probably not the most economical answer. There should be a combination of indigenous generation and interconnection.

Mr Flanagan: I have concerns about the fact that the proposed electricity market reform is being taken forward by DECC and the implications that that would have for differing levels of incentivisation across the single electricity market. I would like reassurances that that will not have a negative impact on consumers on this island.

You stated that renewable generators will avoid the carbon tax. However, due to the fact that all generators here are paid the same for generating electricity, will consumers end up paying that tax in some way, regardless of whether the electricity is generated from a renewable source or fossil fuels?

Mr Shane Lynch: That is right. There are a couple of points on that. If you have a single electricity market on the island but there is a tax that applies only to Northern Ireland, that will have a distortional effect on the single electricity market. Generators in Northern Ireland will be paying that tax, but the generators in Ireland will not be paying it. We have other distortions in the market through taxation and policy. Interestingly, in Ireland, there is a carbon windfall tax that is distorting the market. Certainly, based on a recent appeal judge decision, it will distort the market.

You are right that our market design is based on what we technically call the system marginal price. The marginal generator sets the price of electricity for everybody. If that marginal generator is paying the carbon tax, that is included in the price of electricity for everybody.

The Chairperson: So, everybody throughout Ireland is affected.

Mr Shane Lynch: Everybody throughout Ireland is affected. The policy thinking is that you will eventually drive the fossil fuel generators out of the market, and the marginal generator will be a renewable generator that is not paying the tax. However, that takes time.

Mr Flanagan: We are a long way away from driving fossil fuel generators out of the market. Fossil fuel generators need to be retained as a backup in the medium term.

Mr Shane Lynch: I agree.

Mr Flanagan: Has there been any assessment of looking again at the facility where every generator is paid the same price to see whether an alternative solution can be found, or would that be completely against everything that is the single electricity market?

Mr Shane Lynch: One of the fundamental pillars of the design of the single electricity market is the system marginal pricing arrangement, under which everyone gets paid the market price of electricity rather than their production cost. That is totally consistent with economic theory on commodity markets.

In the bigger picture, we need to be aware that the single electricity market now has to evolve into a regional electricity market in western Europe by 2016 because of the European directive. The single electricity market will have to significantly change in design to be compliant with the new regional electricity market. Therefore, some of the design features that we have at the minute may change anyway. In the long run, it is normal, no matter what product you get, that you get it at the market price. If you happen to be cheaper than the other guy, you still get the market price.

Mr Flanagan: That leaves us with an anomaly where renewable energy companies are making massive profits. That is up to them and they take the profit. However, it is not assisting consumers. Consumers want to support renewable forms of electricity because they are sustainable and will not really damage the environment. However, they are not prepared to pay over the odds for it. The whole principle behind renewable sources of electricity is that the electricity should be cheaper, but we are not seeing that benefit.

Unless something seriously changes, the support that people have for renewable electricity will have to be looked at. That opens a whole debate around the community benefits of wind farms and things like that. For example, should an amount similar to the carbon tax, which fossil fuel generators have to pay, be paid by renewable energy companies into community benefits? That is a whole can of worms. There is a massive discussion to be had there.

In terms of the capacity mechanism graph that you showed us, you made a comment that payments are made to companies to cover their fixed assets to give them some sort of security. If that mechanism is not needed, is there any way that the payments can be clawed back?

Mr Shane Lynch: Picking up on the point about renewables, there is no way that generators should make excessive profits at the expense of consumers.

Mr Flanagan: We might disagree on what "excessive" means.

Mr Shane Lynch: They deserve reasonable profits. A reasonable profit is one that is commensurate with the level of risk that they are taking. It is our job, as regulators, to make sure that we design markets that produce that result. When it comes to renewables, the companies get their revenue from two places — the market and subsidies through the ROCs regime. That is something that we are continually looking at.

I totally agree with your point. The strategic energy framework has targets of 40% for renewables, but it also has targets for fuel poverty. We have to consider all of those things in the round and try to tick all the boxes. I am totally with you on that point.

We already have a capacity payment mechanism in the single electricity market. In this case, we are ahead of GB. It does provide a bit more stability for investors, but, because it provides more stability, they should be taking a lesser return, because they are taking less risk. If you were introducing a capacity payment mechanism, one would expect the return to be lower than if you did not have one. In the end, it should come out with the same impact for consumers. Your point is well taken.

The Chairperson: If, for example, Northern Ireland were to be exempt from the carbon tax, would that mean that Ballylumford and Kilroot would be exempt?

Mr Shane Lynch: Yes.

The Chairperson: So, they could generate electricity more cheaply than similar generators in England?

Mr Shane Lynch: Yes.

The Chairperson: That would give them a market advantage?

Mr Shane Lynch: Yes.

Mr Flanagan: He is not saying a pile here, Chair.

Mr Shane Lynch: I am just letting the discussion develop.

Mr Flanagan: I would call it leading the witness. *[Laughter.]*

The Chairperson: We are all used to that.

How do you resolve that?

Mr Shane Lynch: For Kilroot or Ballylumford to sell their power to consumers in Scotland or England or Wales and to compete with generators in those countries, they need to use the Moyle interconnector, which is the only way of getting there. Nonetheless, there are 450 MW of capacity there that can be used. So, there would be a distortion. You are right; there would be a distortion, in practice, between fossil-fuel generators in Northern Ireland and the rest of the UK, if we were to get the derogation.

Mr Frew: Does it not cost the generators more to get the electricity to Scotland?

Mr Shane Lynch: It does, because they have got to pay for the use of the Moyle interconnector.

Mr Frew: Could that, in itself, be a lever or tool to try to get some sort of dispensation or derogation?

Mr Shane Lynch: I think that the arguments about the disproportionate effect on Northern Ireland have been well made.

The Chairperson: Just one point on the smart grid that was mentioned in connection to fuel poverty; smart metering should assist in combating fuel poverty by providing a mechanism whereby people can judge how much electricity they are consuming, when they are consuming it and at what time of the day and so forth, and, in that sense, they can lower their costs. It would be another instrument that we would have to combat fuel poverty, would it not?

Ms Wishart: That is one of the reasons why we are doing a trial on smart metering that is targeting vulnerable customers in fuel poverty. The principle should work, I agree, but a lot of these people are already on prepayment meters and have visible information. So, it is about how smart the meters need to be to add value. We make assumptions when we are looking at the costs and the benefits, and what we are trying to do with this trial is see how many of those assumptions have value and what benefit we can really derive from this. The hope is that we will be able to stretch the benefits for less money.

The Chairperson: Thank you very much, and thank you, Mr Lynch.

Mr Flanagan: Chair, would you mind if I asked a quick question on the common arrangements for gas? I did not realise that you were bypassing it at the start.

The Chairperson: I am sorry; go ahead.

Mr Flanagan: In reading through the papers, I am concerned that CAG may no longer go ahead and that, instead, both utility regulators will simply settle for a second gas regulation. I would like some assurance that it is not going to happen. In the strategic energy framework, even though it is only a policy from DETI, is there a feeling that the Utility Regulator is undermining that framework by not fulfilling its targets under the strategic energy framework and implementing CAG and by not making decisions in a timely and effective manner?

Mr Shane Lynch: Very briefly, the Utility Regulator is 100% behind CAG.

Mr Flanagan: Both utility regulators, or can you only speak for yourself?

Mr Shane Lynch: There is only one Utility Regulator; in Dublin, it is called the Commission for Energy Regulation. We are 100% behind CAG and always have been. We largely see the benefits as strategic in regard to attracting big investment, such as storage, in Northern Ireland. CER, and we have to respect this, has felt it necessary to review the economics in the interests of its gas consumers. The project is a partnership one, and, like all partnerships, it can only happen if both partners want it to happen. We have to respect CER's wish to review the cost-benefit analysis. We hope that it will be satisfied with the results of the cost-benefit analysis and that we can get the project moving again to completion, but I have to respect its wishes to re-do the cost-benefit analysis.

Mr Flanagan: Thanks.

The Chairperson: In relation to the SEM committee, is the tie-breaker issue now a draft policy position?

Mr Shane Lynch: The SEM committee made a decision on the tie-break issue, and, subsequent to having made that decision, it received an enormous amount of representation, both verbal and written. The SEM committee continues to consider that representation, and we hope to issue a public statement on that shortly.

The Chairperson: OK, that is fine. Thanks very much. I am sure we will see you soon.

Mr Shane Lynch: Once a week. *[Laughter.]*

Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Energy Bill: DETI Briefing

15 November 2012

NORTHERN IRELAND ASSEMBLY

Committee for Enterprise, Trade and Investment

Energy Bill: DETI Briefing

15 November 2012

Members present for all or part of the proceedings:
Mr Patsy McGlone (Chairperson)
Mr Phil Flanagan (Deputy Chairperson)
Mr Gordon Dunne
Mr Paul Frew
Ms Maeve McLaughlin
Mr Stephen Moutray
Mr Robin Newton
Mrs Sandra Overend
Ms Sue Ramsey

Witnesses:

Ms Alison Clydesdale	Department of Enterprise, Trade and Investment
Mr Fred Frazer	Department of Enterprise, Trade and Investment
Ms Olivia Martin	Department of Enterprise, Trade and Investment
Ms Helen Vaughan	Department of Enterprise, Trade and Investment

The Deputy Chairperson: I welcome to the Committee Olivia Martin, Fred Frazer, Alison Clydesdale and Helen Vaughan. If you wish to make an opening statement, we will follow with a question-and-answer session.

Ms Olivia Martin (Department of Enterprise, Trade and Investment): Thank you very much for fitting us into your schedule. As you know, the Department carried out a public consultation on policy proposals for a new Energy Bill. The consultation closed in the middle of September, and we have spent the intervening time looking closely at the responses to the consultation and coming up with our final policy position, on which we want to consult with you today. I am responsible for co-ordinating the Bill and can give you an overview of the consultation responses; my colleagues are here to help me to respond to queries.

We had 57 responses to the consultation, and I understand that you have a list of the people who responded. We carried out four consultation events, which I will go through by subject matter, if that is OK, starting with the energy-efficiency obligation. The consultation asked whether the Energy Bill should introduce powers for an energy-efficiency obligation. Of those who tackled that question, the majority were in favour of qualifications outlined in the comments that are attached to the letter that the Minister sent in favour of the introduction of a framework for an energy-efficiency obligation. The consultees raised many important issues around the cost of energy and the need to ensure that businesses are not saddled with extra burdens of higher energy costs as well as the need to balance requirements for those in fuel poverty. Other issues were raised about the technicalities of the obligation — who should be obligated and who could benefit from the measures — and the need to ensure that impartial advice was available. If the framework is ultimately approved, further consultation would be needed on the detail of those issues. However, at this stage, we are looking only at the framework that might bring it in. We believe that the energy-efficiency obligation could play a useful role in contributing to many energy policy goals.

Turning to the feed-in tariff for the small-scale generation, the vast majority of consultees supported the introduction of a framework power for a small-scale feed-in tariff for renewable electricity, as they had done in the previous consultation on the issue. A number of issues were raised about transitional arrangements, future tariffs and the need to be mindful of implementation issues, but the issues raised by consultees were primarily for secondary legislation and not the primary framework powers. Therefore, further consultation in advance of secondary legislation will be required on the small-scale fit to determine tariff levels and implementation dates. The Committee will, of course, be consulted on that in due course. Therefore, the Minister proposes to introduce the powers as a basis for the introduction of the small-scale feed-in tariff.

With regard to the transfer and assignment of licences, this provision allows electricity licences to be transferred from one party to another in the event of a merger or takeover. This is known as the assignment of licences. Most consultees who commented on that area agreed that the Electricity Order should be amended to correct the absence of statutory provision for the assignment of electricity licences and that the additional provision in place in Britain for gas and electricity assignments should be replicated here. One respondent felt that the current process should remain as it is. However, the majority of respondents favoured the extended two-month consultation period, in line with that in place in GB, although some felt that a shorter 28-day period was preferable.

Any concerns about making provision for the assignment of electricity licences can be addressed by making provision for effective prior consultation and allowing for the extended consultation period, also in light of the fact that the Utility Regulator will be obliged to apply the same criteria to the transfer of the licence as it would in considering whether to grant a licence in the first place.

With regard to gas storage, the consultation paper outlined proposals for amending the gas order in respect of provisions for major gas infrastructure, including a gas storage facility. First, it was proposed that responsibility for granting consent to construct a pipeline or gas storage facility should transfer from the Utility Regulator to the Department. That amendment would bring arrangements for constructing major gas infrastructure into line with those for electricity infrastructure in Northern Ireland and with arrangements for the gas sector in GB. The Utility Regulator will retain responsibility for gas licensing, including responsibility for granting a licence to operate the gas storage facility. The majority of respondents agreed with that suggested amendment.

It was also proposed that the gas order should be amended to provide further clarity in relation to provisions for the decommissioning and abandonment of a gas storage facility. Again, respondents largely welcomed those proposals. A few respondents argued that care should be taken to avoid establishing overly burdensome conditions in respect of decommissioning and abandonment that might create potential barriers to investment. In response, however, the Department pointed out that detailed consent conditions will be developed on a case-by-case basis, and that they will be tailored to the particular circumstances of each project. We have no desire to have more onerous conditions in Northern Ireland than in the rest of the UK. However, it is important to protect not only public safety but the public purse in the event of circumstances that would require the decommissioning of a gas storage facility.

We move on to duties and obligations on the Department and the regulator. The consultation set out the duties of the Department and the regulator and asked whether consultees were satisfied that those are still fit for purpose. We also consulted on the introduction of a duty on the Department alone to promote renewable heat and on whether sustainability should become a secondary duty in the hierarchy of duties rather than a general duty. A number of significant issues were raised in response to those consultation questions. It is difficult to summarise all the various responses and issues, but the general thrust was that the duties and obligations should be cast to ensure a more sustainable energy framework for the future and that there should be consistency in the regulatory framework between the Department and the regulator.

We recognised many of the issues raised by consultees, and we tried to address them by bringing forward the following: introducing a new duty to promote renewable heat; giving sustainability greater weight in the hierarchy of duties; reviewing the promotion of gas duty in five years' time; consulting further on amending the bulk of the duties and objectives; introducing a new duty for the Department and the regulator to follow regulatory best practice; and introducing a requirement for the Department of Enterprise, Trade and Investment (DETI) to produce a strategy and policy statement for the approval of the Assembly. That statement would set out the strategic priorities for the energy sector; describe the roles and responsibilities of the Department, the regulator and other relevant bodies; and define policy outcomes that DETI considers the regulator to have an important role in delivering. The regulator would have to have regard for that strategy and policy statement in carrying out their functions, similar to the way in which they already have regard for Department for Regional Department guidance on its water duties. The regulator would then have to report against the actions that they have taken in line with the strategy and policy statement. Those are the proposals on the regulatory issues.

The final issue was the enforcement provisions. Just five consultees responded to that question. All supported the proposal to amend the energy order in order to provide a full appeal to the High Court for a regulated person aggrieved by the imposition or amount of a penalty or the date by which a penalty was required by the Utility Regulator. Therefore, the Department proposes to proceed with developing the policy as set out in the consultation paper.

Those are the main elements of the consultation responses that we wanted to draw to your attention. We are happy to respond to any queries.

The Deputy Chairperson: Thanks, Olivia. I will hand back to Patsy before we start.

Ms S Ramsey: It is like the 'X Factor'.

(The Chairperson [Mr McGlone] in the Chair)

The Chairperson: Do members have any queries?

Mr Newton: Thank you, Chairman. We just had a briefing from the Utility Regulator about the position on domestic energy costs, and Northern Ireland is, in fact, in a favourable position vis-à-vis GB or, indeed, the Republic of Ireland. Is it likely that this will have implications for the cost of energy to the consumer?

I read in your document that 19 of the 21 respondents had concerns about impartial advice. I think that that was the highest response, was it not? Will you say something about the importance of impartial advice in the scheme and how you hope to address it?

Ms Martin: Certainly. The main cost implications arising out of the Bill for the consumer will be from the energy-efficiency obligation. One of the important things to bear in mind is that the obligation would replace the Utility Regulator's Northern Ireland sustainable energy programme (NISEP), which is funded by a levy on electricity that all consumers pay. That fund is running at about £8 million a year. The Minister is very keen for the obligation, as far as possible, not to be at a level more onerous than that for NISEP.

That question is primarily for the secondary legislation, which will determine the targets and, therefore, the costs of any obligation. We would need to do much more detailed consultation on the exact costs and where they would fall. In the current environment, businesses were very concerned about any further costs on them, and we fully take that on board. Equally, those representing consumers are concerned about that issue. Therefore, there is a great deal of further work to be done for the secondary legislation if the primary legislation goes through.

Most people said that impartial advice is key to the operation of any obligation. In fact, yesterday, I was in a meeting with the Department for Social Development (DSD) and other parties on fuel poverty. We discussed the need for a much more joined-up approach to the provision of advice in the fuel poverty and energy arena and whether the one-stop-shop approach could be taken forward. We hope that by working together, we could help to do that. The consultees were concerned that if the only form of advice came from suppliers, it might not be perceived as impartial.

Mr Flanagan: Olivia, thank you for your presentation. Your final comments have warmed my heart because it is great to see that something that Sinn Féin put into a consultation response was embraced and that there may be some progress on the one-stop shop on advice for energy-efficiency measures and even renewable energy. I am delighted to see progress on that.

I was also glad to see that the consultation events got out of Belfast and Lisburn. Thanks for making that change. Chair, I attended one of the events in Cookstown in your constituency, which you share with Mrs Overend, so I will not leave her out of the Mid Ulster game either. How much of the Energy Bill was drafted taking fuel poverty into consideration? My big concern about energy policy in DETI is that DSD takes a lead on fuel poverty. From my take on it, DETI is primarily concerned with growing the economy and with protecting businesses. I see that as the primary objectives of DETI, and, as such, many of the policies that DETI implements on energy are targeted more towards businesses than people who are living in fuel poverty. On fuel poverty in particular, how much consultation was there with DSD, which is taking the lead on fuel poverty, and external stakeholders in drafting the proposed legislation?

Ms Martin: As you will be more than aware, there are three pillars to fuel poverty: income levels, fuel costs and energy efficiency. DSD has the statutory responsibility for domestic energy efficiency, which is why it leads on fuel poverty.

Mr Flanagan: Sorry to cut across you, Olivia, but which Department leads on the other two pillars?

Ms Martin: I suppose that income levels are a function of the economy.

Mr Flanagan: Therefore, it is DETI.

Ms Martin: I do not know whether any Department is designated as responsible for income levels, but I suppose that that is an economic issue. That is why, in introducing the energy-efficiency obligation, we have worked hand in hand with colleagues in DSD right through the process. They were involved in the study that looked at the energy-efficiency measure that underpinned the work on the obligation, and they have been involved in formulating the policy at every stage. Our Minister has written to her colleague in DSD at every stage to ensure that what we are introducing can help to meet DSD's requirements on fuel poverty. We see this obligation as contributing to the PFG target on the prevention of fuel poverty. My colleague Paul Dolaghan and I sit on a couple of fuel poverty groups that DSD runs, and I sit on the fuel poverty prevention group. We see energy efficiency as one of the key elements in helping to prevent people from falling into fuel poverty. The main external consultation that I have done prior to the public consultation was with the Consumer Council for Northern Ireland. It has a keen interest in fuel poverty matters, and I recently presented the results of the consultation to one of the other fuel poverty groups that DSD runs. Antoinette McKeown and Pat Austin of National Energy Action sit on that group.

That is the kind of engagement that we have had.

Mr Flanagan: The big thing in the Energy Bill to tackle fuel poverty is the energy-efficiency obligation, which is to do with housing and which is a DSD matter. I am concerned that energy cost is probably as important as having a fuel-efficient home. How much work has been done to calculate whether the increase in per unit cost that will have to be incurred to fund the obligation will have a benefit in the overall reduction of energy usage in fuel-poor households?

Ms Martin: We did some initial calculations on scale, but the primary framework will not set the target obligation of, for example, a 1% a year reduction in energy usage; the cost will depend on the target that you set. We need to go into the detail of that in the secondary legislation. The primary legislation will only allow the secondary legislation and set out its parameters. Therefore, subject to everything being agreed, we envisage that the secondary legislation will set the targets, and that is the point at which we will want to look in depth. It is a great opportunity because we can tailor it to meet the needs of everyone in Northern Ireland so that it will not add a significant burden to cost but will make a step change in energy efficiency, which we feel is needed. It is hard to do things about fuel costs, but the one factor in fuel poverty that we can affect is to make people's homes more energy-efficient. That is the key area in which we in Northern Ireland can do something positive to help people in fuel poverty and, indeed, help businesses to keep their costs down. Energy efficiency is the key thing in that field.

Mr Flanagan: There is a substantial section on the green deal, the proposals for that and how it has worked in the Department of Energy and Climate Change (DECC), and when the green new deal was ruled out by the Minister for Social Development, it was ruled out on the basis that economists advised that it was too risky. However, in this consultation document, it has come out that it was ruled out because a green deal would not be appropriate for those in fuel poverty because they are likely to be either unable or unwilling to take on debt for the purposes of energy efficiency. However, what happened was that a grant was given out for a boiler, and fuel-poor households are now expected to find £1,000 out of somewhere to buy a new boiler. If I was in sales, it would be an awful lot easier to convince somebody to take out a loan to put in a range of energy-efficiency measures, which could include a boiler, instead of going to poor houses to try to get them to come up with £1,000 to buy a new boiler there and then. For me, the green new deal is a far better option than the boiler replacement scheme, which is important, but it is not working in fuel-poor households because they just do not have £1,000 up front.

Ms Martin: I want to differentiate slightly between the green new deal and the green deal in GB, and perhaps we have been as guilty as anyone of conflating the two. The study that we did about a year ago looked at the energy-efficiency measure and what would be the best between the green new deal, a green deal and extended NISEP, the supplier obligation and voluntary agreements. When looking at the green deal, we, through a DETI-led study, felt that a loan scheme was probably not the best way to help people in fuel poverty, and the boiler replacement scheme has been a DSD thing. My understanding is — I cannot speak for them of course — that it is about the prevention of fuel poverty and helping people who are not in fuel poverty to lower their costs with a more efficient boiler to avoid falling into fuel poverty. So, I take your point that people in fuel poverty will not have the other half of the grant that is needed.

I return to Lord Whitty's report to the Consumer Council, in which he advised Northern Ireland policymakers to wait to see what happens with the GB green deal. That is because it is an incredibly complex mechanism. There is a lot of scepticism in GB about whether it will work. Our feeling is that such a pay-as-you-save scheme may be helpful here, but we want to see how it works in practice first.

Mr Flanagan: Larry also said that extending the gas network may not be such a good idea, so I wonder whether you listened to that comment as well.

I cannot remember exactly the terms that you used, but you said that your information was that the green new deal may not be great for people in fuel-poor households. Where did you get that information?

Ms Martin: We undertook a study, which is referred to in the consultation document. It is —

Mr Flanagan: Did you engage with people such as the Consumer Council or those who work on tackling fuel poverty, or did DETI just make the policy decision that the green new deal would not work, with the result that it would not include it as part of the energy obligation?

Ms Martin: There is probably opportunity for green new deal-type arrangements under the obligation, with the green new deal party being partnered with the obligated parties, such as the suppliers or, as it may be, the oil importers. That would certainly enable them to deliver that type of arrangement, if that is what the supplier and the green new deal grouping felt was the best way of doing it.

Mr Flanagan: The important thing about the green new deal group is that its members are not dying about taking it forward. They want government to implement it, so they are willing to hand the whole thing over to government to implement it in whatever way they want. It is not that they want to do it, want the credit or want to put in the work; they are so bought in to the idea that it can make such a difference for the good that they want government to take it forward. So, it is not really about working with the group to achieve this and some other thing; it is about taking the group's idea, which is not really that new, and developing it. It could really become more than what is proposed at the minute because it could mean that NISEP schemes and other things are put into a proper, impartial one-stop shop for providing energy efficiency and renewable technology advice. I see that one of the points in the economy and jobs initiatives is that the Office of the First Minister and deputy First Minister (OFMDFM) will take forward proposals on a retrofitting scheme, so all that we can do is wait and see what happens there. However, will OFMDFM take that forward, or will DETI or DSD do that?

The Chairperson: I am conscious that you are here to discuss the Energy Bill. So, important as these issues are, you may or may not be in a position to answer the questions with the information that you have in front of you today.

Ms Martin: Yes; I do not know at this stage. That document came out last week, so, at this stage, I do not have sight of how the scheme will be delivered.

Mr Flanagan: Finally, Mr Agnew asked Shane Lynch whether the Utility Regulator had responded to the consultation, and his reply was that it had. Yet, that is not listed in the 57 responses.

Ms Martin: The regulator responded informally to our director, Fiona Hepper. It was not a formal consultation response.

Mr Flanagan: OK; no problem.

The Chairperson: To pick up briefly on what Phil said, you talked about the correlation between you and DSD and the work that you are doing together. At any time, did you and DSD separate your responsibilities? Did you say that DETI is responsible for looking, through either broad or very specific themes, at energy and the Energy bill in the overall context of fuel poverty and keeping people out of being fuel poor? Did you specify ways that DETI is taking the issue forward strategically and ways that DSD will take its area of responsibility forward strategically? I presume that there was such a discussion because I hope that that is why you met. If that is the case, will you share that information with us so that we can see which areas of responsibility were agreed, which thematic areas were agreed and how that was fed into the preparation for the Energy Bill?

Ms Martin: That is a good point. I do not think that there is a formal piece of paper that sets out that we are going to do x and DSD is going to do y. I would just meet my counterpart in DSD frequently and have a lot of liaison with her on issues relating to the obligation and general energy efficiency issues.

I do not know whether you are aware that energy efficiency is divided up in statute in, perhaps, a strange way. DSD is responsible for domestic energy efficiency, while we have responsibility for energy efficiency in the voluntary sector. Invest NI is responsible for energy efficiency in the commercial and industrial sector, and the Department for Finance and Personnel has responsibility for it in the public sector.

So, if you are looking for a written version of the division of responsibilities for energy efficiency —

The Chairperson: That would be very important, because if there are bits that need to be tweaked or added to, we could certainly look at doing that. I am surprised to hear that you did not clarify your areas of responsibility with DSD.

Ms Martin: Our Minister wrote to the Minister for Social Development to liaise with him formally on taking the Energy Bill forward.

The Chairperson: I presume that, in such a liaison, certain areas of work would be divided between the Departments. I would be surprised if there were no such approach.

Ms Martin: Yes, I suppose that that letter would cover the ground that you described.

The Chairperson: I hope so. I think that it would be important if that could be shared with us.

I want to ask you about what has been referred to as the green deal, the renewable energy targets of 40% and 10% for renewable heat and the importance of renewables. I want to ask you about this in the context of something else that is happening and of what might arise with the green investment bank, and how, if we look at it at all, that bank could feed in to meeting or helping with some of those targets.

Ms Martin: I am afraid that I do not have any information on the green investment bank, but we could probably get it.

The Chairperson: That is grand, it is just that we had done that, and it would help our work on that.

I have one final point to make. Out of the 21 respondents, five were not in favour of the introduction of an energy-efficiency obligation. Can you provide details about who those respondents were and their rationale for not supporting the obligation?

Ms Martin: Yes, we certainly can. My recollection is that at least two or three of those respondents were oil importers who were not comfortable with the idea of introducing an obligation for Northern

Ireland alone. They felt that something should be done on a UK-wide basis under the energy efficiency directive.

I think that they perhaps have not taken into account that GB already has the mechanisms by which it will comply with the new requirements under the energy efficiency directive, which is due to come in this month. That is the green deal. They are going to use the green deal and the energy company obligation to comply with the requirements under that directive. Those initiatives do not cover Northern Ireland, so our view is that we need something here in Northern Ireland as well.

Perhaps they were not aware of that, and we need to have some more engagement with the oil importers. I can certainly get back to you with the details that you asked for.

Mrs Overend: I want to ask about the energy-efficiency obligation. Is there a possibility that some consumers will be paying more for energy without any real benefit from the obligation, if, for instance, they have already installed energy efficient measures? Likewise, businesses will be paying for the energy-efficiency obligation, and, rightly, they should already be as energy efficient as they can be. What are your thoughts on that?

Ms Martin: It is correct to say that, in any overarching policy, there are going to be people who will not benefit from it. It depends on the level at which the target is set. It can be shaped to ensure that that burden is as light as possible. That is a matter that we definitely need to consult on again. It is like any policy. If you installed a solar photovoltaic, you might still be paying for the rest of the Northern Ireland renewables obligation even if you are benefitting from it. I think that a similar type of situation might arise. The key will be in ensuring that the balance between the energy efficiency goals that we want to achieve and the burden on business and domestic consumers is right. We need to get further views on that and do some more economic modelling on the detail.

Mrs Overend: I would appreciate that.

Mr Dunne: Apologies for being out for a while. Thanks very much for your contribution today. To be honest, I heard very little of it, but I have one or two questions.

I understand that you get four renewables obligation certificates (ROC) for each 250 kilowatt turbine. That has been reduced by 20% since 2010, yet the cost of installation and generation has increased. Is there an argument that that should be increased to five ROCs for smaller units to try to encourage investment in the sector?

Ms Alison Clydesdale (Department of Enterprise, Trade and Investment): You get four ROCs for each 250 kilowatt turbine, but we have no evidence to suggest that the ROC level should be increased. Indeed, the four ROC level is quite generous. The number of planning applications for 250 kilowatt turbines indicates that that level of incentivisation is adequate to stimulate the building of enough turbines.

Mr Dunne: There is an argument that the cost of installation has increased significantly since 2010.

Ms Clydesdale: The cost of wind turbines has actually decreased. I do not have any figures on the cost of installation, but as with all onshore wind technologies, the cost of the technology has fallen quite rapidly over the past five years or so. We do not have any evidence to suggest that the cost of installation has gone up, but we will seek information on that when we go out to consult on the small-scale fit. We will have to look at the small-scale fit for the tariff levels, and we will ask for evidence on that.

There is also a Department of Energy and Climate Change call for evidence on the cost of onshore wind production, which we have circulated to all our Northern Ireland stakeholders. We have made a plea to those developers and individuals to provide that evidence. They are the people that have that evidence, and we really need it. So, to date, we have no evidence that the cost of installation is increasing, and it is the opposite for the cost of the technology.

Mr Dunne: What about the cost of connection into the system? We are always lobbied on that.

Ms Clydesdale: It is an issue. That is the regulator's responsibility. From the beginning of October, it removed the 40% subsidy that individuals at that level would have got, which has meant an increase in the cost of connection for some small-scale producers. Obviously, it is a commercial decision for individuals at that point, but four ROCs over 20 years is quite a generous level of incentivisation. So, it is a personal decision whether that level is adequate for them to pay their generation costs. However, the cost of generation and the connection policy is the regulator's responsibility; we do not have any role in that.

Mr Dunne: OK. Thanks very much.

The Chairperson: Now that you are on that subject, you mentioned that the cost of the technology has decreased. What specifically do you mean by "the technology"?

Ms Clydesdale: Sorry, I meant onshore wind turbines. That is what we were talking about.

The Chairperson: I know, but what do you mean? Do you mean the turbine, the wee base at the bottom of it, or do you mean —

Ms Clydesdale: No, I meant the cost of purchasing the turbine.

The Chairperson: So, are you saying that, from what you are hearing, the actual cost of the entire turbine — the thing that you put on the site — has decreased?

Ms Clydesdale: It has decreased across large-scale and small-scale wind.

The Chairperson: Has it decreased by much?

Ms Clydesdale: Large scale would probably have decreased marginally more than small scale.

The Chairperson: What do you mean by "large scale"?

Ms Clydesdale: Over 5 megawatts.

The Chairperson: Right. I want to get this completely clear. Are you saying that the cost of individual turbines has decreased?

Ms Clydesdale: The evidence of the ROC banding review that is published on the DECC website suggests that the costs of onshore wind have fallen.

The Chairperson: Right. Do you mean the cost of the actual turbine?

Ms Clydesdale: The actual turbine, yes.

The Chairperson: That is grand. Thank you for that.

Do any other members have questions?

Mrs Overend: Could I just come back in again? You talked about reaching the targets. When Gordon was talking about the ROCs, you said that there was a plethora of wind turbines in the planning system. Do you have figures for that? Huge renewable energy targets have to be met by 2020, and, obviously, producers will need as many incentives as possible. You said that a lot are coming through the system, but how many are in the system? What do those numbers mean relative to the targets?

Ms Clydesdale: Are you specifically interested in small-scale wind?

Mrs Overend: We were talking about that earlier, but —

Ms Clydesdale: There are upwards of 700 small-scale wind planning applications that we can attribute to the four ROC level. At the moment, only about 25 megawatts of installed capacity is at the small scale, but there are a plethora of applications for that in the planning system. It remains to be seen how many of those come out the other side of planning and how many will be built when they come through. So, there is uncertainty about how much of that will come out the other side. However, the Planning Service has received a very high volume of applications for small-scale wind. If you trace back the trending, it looks as though the increase in volume started when the four ROC incentive for the 250 kilowatt wind turbines came in. That indicates to us that that is an adequate level of incentivisation.

Mrs Overend: Thank you.

The Chairperson: Do no other members wish to ask questions?

Mr Flanagan: Given there is a bit of a poor take-up in asking questions, I will seek a bit of clarity. There are an awful lot of positive sentiments in the Minister's letter to the Chair and in her foreword to the report. However, a reference to reducing emissions and moving towards a low-carbon future is missing. Is that in the strategic energy framework or in any DETI policy document anywhere?

Ms Martin: A lot of the provisions in the Bill will support the goals that are set out in the strategic energy framework. The energy-efficiency obligation is one particular measure that will help to reduce carbon emission. Increasing sustainability in the hierarchy of duties will not, perhaps, have a direct effect on carbon emissions, but it would, perhaps, signal that we are serious about working towards the more sustainable —

Mr Flanagan: Is the objective to reduce carbon emissions, or is that a side effect of people's having more energy efficient homes?

Ms Martin: The directive states that the focus should be on energy savings, which, obviously, will lead directly to a reduction in carbon emissions. In the consultation, we asked what the focus of the obligation should be. In GB, the focus was a reduction in carbon emissions, and they have introduced the carbon emission reduction target. Consultees agreed that, in line with the directive, it would be better to focus purely on energy savings. That will reduce carbon emissions. The small-scale feed-in tariff will be part of the overall effort to increase the sustainability of energy supply. So, some elements of the Energy Bill will support the SEF targets for increasing the sustainability of energy supply.

The Chairperson: As no other member wants to ask a question, I will thank you. My apologies for not being here for the start of your presentation; I had scheduled to take a call at 12.00 pm. Before you leave, can you tell me whether those consultations are on the website?

Ms Martin: Not at present. We are probably going to put them out once we get the final policy position from the Executive. Once we get that government response, we will put them on the website. However, if you want them, you can have them. One consultation is confidential. We cannot give you that, but you can have the others.

Mr Flanagan: Can we get a copy of them now or do we have to wait until they go on the website?

The Chairperson: I am sure that they could be supplied to us. Thanks very much for that.