REQUEST FROM THE COMMITTEE

Members asked for the Department's views on the statements made by John Simpson.

DEPARTMENTAL RESPONSE

1. **Should the carbon emissions taxation (for UK) apply to NI?**

   The Department has made the case strongly to HM Treasury that the carbon price floor should not apply in Northern Ireland due to the different market conditions in place. The intent of the tax is to promote investment in GB in low carbon electricity generation to improve security of supply and carbon reduction. Applying the tax to conventional fossil fuel generators in NI that operate in the cross border Single Electricity Market (SEM) would distort the market by making them more expensive than competitors in the Republic of Ireland. They would, therefore, be run in the market schedule less often and the earned contribution to their costs would reduce. In the extreme, some of the NI fossil generators may be forced to close early - causing security of supply problems for NI. In the meantime the generators, who would be run and dispatched more often, would be lower efficiency generators (mainly in RoI). This would increase market prices and emissions of CO_2 across the island (probably by a few per cent) with the opposite effect to that intended by the UK taxation policy.

   HM Treasury is considering these points and discussions are ongoing.

2. **Electricity policy is devolved: there is some ambiguity of discretion in relation to DECC.**

   There is no ambiguity – energy policy, with the exception of nuclear, is devolved. However on many occasions it is more cost effective for NI consumers to be part of a wider UK initiative as costs can then be socialised across the UK, while retaining powers to exercise NI specific elements.

3. **What are the implications of EU Directives on internal electricity networks [IME 3]? The (so-called) FUI group (France, UK and Ireland).**

   In respect of the EU Third Energy Package (IME3), this package has the aim of further liberalisation of European energy markets, with a focus on unbundling of transmission networks, provision for enhanced consumer protection, and establishing the European regulatory body ACER – effectively providing greater autonomy to national energy regulators. One of the specific implications is the need to certify the TSO in Northern Ireland. The Utility Regulator is currently considering NIE's application for certification of the arrangements in Northern Ireland.

   FUI is a separate EU regional energy market initiative. See Question 5 below.

   The third package also lays the ground work for European Market Integration. See Question 5 below.

4. **Is there adequate accountability from/for the SEM Committee? All-island decision making with need for NI consultative response base.**

   The SEM Committee is formally a Sub Committee of NIAUR and, separately, of CER. It has representation from both Regulators on the island (NIAUR and CER), along with two independent members. The role of independent National Regulatory Authorities is a key component of the EU Internal Market. The SEM was established in 2007 through legislation in both Northern Ireland and the Republic of Ireland. The SEM Committee has, as a prime objective, the protection of consumers.

5. **Can the SEM operate compatibly with BETTA?**

   The operational basis for European Internal Market integration is laid out in ACER's Framework Guidelines for Capacity Allocation and Congestion Management (FGCACM). Work is proceeding initially on a regional basis with Northern Ireland as part of the FUI (France-UK-Ireland) region. The aim is to couple the markets with the North West European region and thence with the other regions of Europe to deliver a single European electricity market. The Implementation Group of the FUI region consists of the Regulators and relevant government departments from NI, ROI, GB and France and meets regularly. The timescale for integration is 2014. This is challenging for all Member States, but especially for those with markets like the SEM which are very different from their neighbours. On this basis the SEM has effectively been allowed an extension or derogation to 2016.

   The process to deliver the market coupling is already well underway with a recently launched detailed consultation by the SEM Committee. In principle, the Framework Guidelines do not require Member States to adopt identical markets, but to have common arrangements for interconnector trading. In practice, this will be difficult to achieve without significant changes to the SEM. Whether it is possible to keep the SEM with adaptations or a new bilateral market is being consulted on by the two Regulators.

6. **Is there adequate accountability by NIAUR? Scope for change? Reporting standards?**

   NIAUR is a non-Ministerial Government Department responsible for regulating the electricity and gas industries and water and sewerage services in Northern Ireland. It is governed by a Board of Directors which is responsible for the overall strategic direction of the organisation and ensuring it meets its legal obligations. NIAUR is not accountable to DETI or DRD but is accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

7. **What are the main implications of a 40% target for electricity from renewables? 40% production or 40% consumption?**

The main implications of a 40% target include reducing our reliance on fossil fuels in the longer term and thereby insulating NI from the rises in wholesale oil and gas prices, increasing security of supply by having a more diverse energy mix and capturing significant supply chain opportunities from the renewables sector.

In order for this target to be met several things must happen, in addition to direct support for renewable development. Firstly, the electricity networks, both transmission and distribution, need to be developed to transport the power from the new renewable sites to local and remote demand centres. Secondly, the system operators need to develop new and improved ways of operating the grids so that they can remain stable and secure with increasing penetrations of renewable generation. This will include development of their operational control activities as well as investment in storage technologies and demand side response. The TSOs have a joint programme called DS3 which aims to deliver this. Finally, regulatory and market incentives need to be aligned to deliver the desired outcomes in the most cost effective manner.

As part of setting renewable electricity targets in advance of the SEF, DETI considered indicative costs involved in increasing the levels of renewable electricity in the period up to 2020. While the cost to consumers will depend on a number of factors, including the exact mix of technologies deployed, it was estimated that the combined cost of renewable electricity installations together with the cost of grid investment needed to meet the 40% target could be between £49 and £83 per household per annum. NIE has submitted capital investment proposals to the Utility Regulator for approval as part of RP5 Price Control which includes £215 million for renewables integration, however it is not yet known if this proposal will be approved.

The 40% target is stated as a consumption target in the SEF – the definition of consumption is as per the Renewable Energy Directive Article 5.3 - “gross final consumption of electricity from renewable energy sources shall be calculated as the quantity of electricity produced in a Member State from renewable energy sources, excluding the production of electricity in pumped storage units from water that has previously been pumped uphill.”

8. Will the NI grid (for T & D) develop sufficiently using present regulatory systems? Cross-border and cross-channel?

The Utility Regulator has the statutory role to carry out Price Controls on the regulated utilities, including their monopoly network businesses. This ensures scrutiny by the Regulator of investment proposals from network companies such as NIE and protection of consumers in relation to recovery of costs through future tariffs.

The Moyle electricity interconnector with GB provides for transmission of electricity in both directions, and has recently returned to full service after 2 cable repairs were completed.

9. Integration of inter-connectors into SEM.

See answer to Question 5 above.

10. Ownership and governance of Mutual Energy. Moyle link, Islandmagee Storage, (carbon storage?), SNIP.

Mutual Energy is a not for dividend mutualised company and its activities are subject to regulatory oversight by the Utility Regulator, e.g. interconnectors are licensed, and licensing and other consents will be required for a gas storage project at Larne Lough.

11. How should NI incentivise renewable sources? Stand alone or UK cross-subsidy? [CEPA report implications]

A stand alone incentivisation scheme for renewable electricity would be too expensive if costs were to be borne by Northern Ireland consumers only. The Northern Ireland Renewables Obligation (NIRO) is ‘subsidised’ by all UK consumers which significantly reduces the burden on NI consumers. DETI is working to ensure that the costs of the Feed In Tariff (FIT) with Contract for Difference (CfD) scheme which is proposed to replace the NIRO continue to be socialised across all UK consumers.

12. Role and responsibility of NIGCC.

The Consumer Council for Northern Ireland was established under The General Consumer Council (Northern Ireland) Order 1984. It has a statutory obligation “to promote and safeguard the interests of consumers in Northern Ireland” and “where it appears to it to be desirable, make recommendations with respect to any matter affecting road or railway passenger transport services and facilities in Northern Ireland and services and facilities provided for passengers travelling to and from Northern Ireland”.

The Consumer Council’s statutory role in relation to energy matters is also established within legislation, i.e. through the Energy (NI) Order 2003, which gives the Consumer Council representation responsibility for all energy consumers in Northern Ireland.

Energy Division
29 February 2012

Utility Regulator responses to questions from John Simpson

1. **Should the carbon emissions taxation (for UK) apply to NI?**
The Carbon Price Floor (announced in Budget 2011) is a UK-wide tax being introduced by HM Treasury. The Utility Regulator (UR) understands that the question of an exemption for NI has been considered by DETI and DFP and UR would support any exemption that could be obtained for NI.

2. **If electricity policy is devolved: is there some ambiguity of discretion in relation to DECC?**
The EMR introduces four main measures:
    a) Carbon Price Floor (Proposed by the Treasury);
    b) Feed-in Tariff with Contracts for Difference (Proposed by DECC);
    c) Emission Performance Standard (Proposed by DECC);
    d) Capacity Mechanism (Proposed by DECC);

    Taxation is a reserved matter, however energy policy is devolved to the NI Executive and the other 3 measures (b-d) fall into that category. We understand DETI and DECC have been working in partnership to find the best fit for these measures in Northern Ireland.

3. **What are the implications of EU Directives on internal electricity networks [IME 3]? The (so-called) FUI group (France, UK and Ireland).**
The referred EU Directive introduced by Regulation (Ec) No 714/2009 of the European Parliament and of the Council, aims at setting rules for cross-border exchanges in electricity to enhancing competition within the internal market in electricity. This will involve the setting of harmonised principles on cross-border transmission charges and the allocation of available capacities of interconnections between the island of Ireland and Great Britain.

    The FUI group is related to the Regional Initiatives project of energy regulators to speed up the integration of Europe's national energy markets. There are 7 electricity regional markets as a staging post towards a single-EU energy market. The France, Ireland and UK electricity form the FUI group which is led by the British Energy Regulator (Ofgem) and aims to integrate the national markets in the three countries.

    The impacts of the proposed harmonization of cross border trade are currently being quantified. The SEM high level design is significantly different from the typical European market. It is not clear at this stage what is the volume of change that will be required, in order to make the SEM compatible with the European target model for cross border trading. Given the all-island electricity market, the Commission for Energy Regulation (CER) and the UR are currently working together in the impact assessment of the EU directives.

4. **Is there adequate accountability from/for the SEM Committee? All-island decision making with need for NI consultative response base.**
   The SEM committee's (SEMC) statutory duties are set out in the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007.

   All SEMC decisions are subject to public consultation. Decisions of the SEMC can also be challenged through the Competition Commission or the courts.

   There is also scope for legal challenge to be exercised through European courts.

5. **Can the SEM operate compatibly with BETTA?**
   Currently the Regulatory Authorities from both jurisdictions are considering options to either evolve or redesign the SEM in order to make it feasible to integrate the SEM with neighbouring markets.

   The British Electricity Trading and Transmission Arrangements (BETTA) is our closest neighbour and is the only market to which the SEM is physically interconnected. Therefore, alongside other options of evolution or redesign of the SEM, close integration or harmonization of trading arrangements with BETTA deserves serious consideration.

   When the SEM was implemented, the Regulatory Authorities were of the view that the centralised or gross pool market model was the more appropriate choice for the SEM. It was considered that a centralised model would reduce barriers to entry, provide more economic dispatch and would ultimately provide lower prices and greater choice to consumers. The SEM design however will need some adjustment to comply with the EU "target model". These changes are mainly in regard to intraday trading and day ahead trading. It is also worth noting that aspects of the BETTA design will also need to change. The option to harmonize trading arrangements with BETTA is one of the options being currently consulted on.

6. **Is there adequate accountability by NIAUR? Scope for Change? Reporting standards**?
   The Utility Regulator's remit is defined in legislation enacted by the NI Assembly.

   All of its decisions are made by a publicly appointed board. Board member appointments are made by the Department of Finance and Personnel.

   The UR's economic regulation is within a policy framework set by Ministers (the Enterprise Trade and Investment Minister in relation to energy and the Regional Development Minister in relation to water). It fulfils a similar role to other independent economic regulators in GB, ROI and Europe.

All of its decisions are subject to public consultation. It also publicly consults on its corporate strategy and annual business plans.

Any decision made by the UR is also potentially subject to judicial review or referral to the Competition Commission.

7. **What are the main implications of a 40% target for electricity from renewable? 40% production or 40% consumption.**

   DETI's Strategic Energy Framework (SEF) has set a target of 40% of electricity consumption from renewable sources by 2020. In the SEF, DETI estimates that 'the combined cost of renewable electricity installations, together with the cost of the grid investment necessary to meet the 40% target, could be between £49 and £83 per household on an annual basis at current prices' (the document was published in 2010). The SEF does also note that: 'These costs would only arise incrementally however as new grid and new generation is installed. The relative cost to consumers could reduce significantly in favour of renewables if the rise in fossil fuel costs, due to increasing demand and reducing supply, transpires as many commentators predict'.

8. **Will the NI grid (for T&D) develop sufficiently using present regulatory systems? Cross-Border and Cross-Channel?**

   NIE has responsibility to plan and develop the electricity network to ensure that all reasonable demands for use of the network are meet. The UR assesses all network development proposals from NIE. Such assessments are conducted in the context of its statutory duties. They involve detailed analysis of need and value for money and are publically consulted on. Investments in the electricity network are typically for three reasons: to ensure continued reliability; to accommodate increased demand; or to accommodate increase supply from renewable or thermal electricity generation. Development includes interconnection with other neighbouring networks.

   The UR is currently assessing NIE's proposals for the next regulatory price control period from 2012 to 2017, and will shortly be publishing its draft determination.

9. **Integration of inter-connectors into SEM.**

   An interconnector exists between SEM and Betta allowing trade between the two markets. The SEMC is currently consulting on further market development to increase the benefit for consumers in relation to the integration of inter-connectors.

10. Ownership and Governance of Mutual Energy. Moyle link, Islandmagee Storage, (Carbon Storage?), SNP.

Mutual Energy (formerly Northern Ireland Energy Holdings (NIEH) is a company limited by guarantee which manages energy assets in the long term interests of Northern Ireland's energy consumers.

Premier Transmission Limited (a wholly owned subsidiary of Mutual Energy) own the Scotland to Northern Ireland Pipeline (SNIP) which links Twynholm in Scotland with the Ballylumford power station in Co. Antrim.

Belfast Gas Transmission Ltd. (a wholly owned subsidiary of Mutual Energy) own the Ballylumford Torytown Pipeline (‘BTP‘) which runs from Ballylumford power station to the Belfast distribution network. Mutual Energy also own and operate the Moyle Interconnector (Moyle), which links the electricity systems of Northern Ireland and Scotland.

Moyle Energy Investments Limited (a wholly owned subsidiary of Mutual Energy) is currently involved in a joint venture with Infrastrata Ltd to develop a gas storage facility in salt layers below Larne Lough.

Mutual Energy has a unique governance model within the energy industry, in that it does not have any shareholders. Members have been appointed to represent the stakeholders and fulfil many of the traditional roles of shareholders, although they do not have any financial interest in the company or receive any remuneration. The model allows for thirty Members.

It is the role of the Board of Mutual Energy to maximise customer value - minimising costs and ensuring that the company maintains the highest standards of cost control and operational efficiency. The Members, representing energy users in Northern Ireland, are there to hold the Board to account for these responsibilities.

The Board of Mutual Energy Ltd is responsible for the corporate governance of the group. This is addressed through the Group Corporate Governance Framework which includes a Combined Code on Corporate Governance (“the Code”). A Statement of Compliance against the code is published annually.

The Utility Regulator has reviewed the corporate governance arrangements to ensure that they continue to meet best practice and that the requirements of the Code are met in practice.

The last review of arrangements was carried out in March 2009 and concluded that the Code is the most appropriate model for the governance structure of the group and that compliance with the Code had been demonstrated through the review.

Islandmagee Storage Ltd is currently not engaged in a carbon storage project.

The South North Pipeline (SNP) is owned and operated by BGE (Northern Ireland) Ltd. The pipeline connects to the Republic of Ireland's interconnector system at Gormanston in Co. Meath to the North-West pipeline, which runs from Carrickfergus in Co. Antrim to Coolkeeragh power station in Co. L/Derry.

11. How should NI incentivised renewable sources? Stand alone or UK cross-subsidy? [CEPA report Implications]

Renewable energy is incentivised by government energy policy at a national and EU level. This can include support mechanisms (subsidies) or taxation of carbon emissions. In additions, the economics of any form of generation are influenced by wholesale market rules and the rules regarding network cost allocation. These are typically determined by the relevant regulator.

12. What is the role and responsibility of NIGCC (Consumer Council)?

The roles and responsibility of the NIGCC are set out by legislation.