



Northern Ireland
Assembly

**Committee for Enterprise, Trade and
Investment**

**OFFICIAL REPORT
(Hansard)**

Electricity Market Reform

9 February 2012

NORTHERN IRELAND ASSEMBLY

Committee for Enterprise, Trade and Investment

Electricity Market Reform

9 February 2012

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 McIlldoon'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.