



Northern Ireland
Assembly

Committee for Enterprise, Trade and
Investment

OFFICIAL REPORT (Hansard)

Electricity Policy Review Part III (Grid Connection):
SSE Airtricity

29 May 2014

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Patsy McGlone (Chairperson)
Mr Steven Agnew
Mr Sydney Anderson
Mr Sammy Douglas
Mr Gordon Dunne
Mr Paul Frew
Mr Fearghal McKinney

Witnesses:

Ms Bernice Doyle	SSE Airtricity
Mr David Manning	SSE Airtricity
Mr Iain Wright	SSE Airtricity

The Chairperson: With us today are Mr David Manning, the director of corporate affairs in SSE; Mr Iain Wright, the head of regulation; and Bernice Doyle, the grid manager. You are very welcome, and thank you for attending and presenting to the Committee today. You have gone through this before, so you are probably aware of the procedure. The nature of it is that you have up to 10 minutes to make a presentation to members, and then we will have a Q&A session. If you are fronting, Mr Manning, please begin.

Mr David Manning (SSE Airtricity): Two very short slides have been handed to you, and I will refer to them as I go along. I will try to speak for as brief a period as possible. We will certainly keep it under 10 minutes.

SSE Airtricity operates as an electricity generator, an electricity and gas supplier and a provider of energy services in Northern Ireland. Entering the market in 2008, SSE has invested around half a billion pounds into the future of Northern Irish energy. Today, we have over 1,500 megawatts of generation capacity participating in the single electricity market, which includes renewables, gas and oil. Of that, we operate around 125 megawatts of the renewable generation capacity installed in NI. Meanwhile, we have over 300,000 gas and electricity customers here. Thanks to our product offerings, customers who have switched to SSE Airtricity have saved a total of £17 million in recent years.

As a generator and supplier of electricity, the network is essential to us for the transport of power from generation sources to customers' homes and businesses. The adequacy, cost-effectiveness, timely delivery and maintenance of the network are therefore crucial to our business and are important to the communities that we serve. For example, we have recently completed our investment in the 73 megawatt Slieve Kirk wind park, and we have included a slide about that in your pack. Of that £125

million investment, £36 million was spent on goods and services in 75 local businesses. That project will also contribute a further £18.5 million to the local community in commercial rates, landowner leases and community funding. That is a total investment of £55 million in a rural area in Derry/Londonderry. The timely delivery of the grid connection was a key enabler of that project. Without it, that local investment and its resulting local economic benefit would not have materialised.

In the remaining few minutes, I want to address four priorities, as we see them, regarding the electricity network in NI. Where planning permission and a connection offer are concerned, SSE notes that a connection application will not be processed until planning permission has been granted. We agree with that policy, as it prevents the hoarding of grid by projects that may ultimately not be developed. The gate process in the Republic of Ireland (ROI) has had problems in that respect. Meanwhile, we anxiously await the full implementation of the Planning Act, particularly the provision of timelines for submissions by statutory consultees, which will make for a more efficient decision-making process.

We are satisfied that connection offers are issued relatively promptly once planning permission has been granted. However, we have found that delays in the actual delivery of the connection infrastructure are unacceptably long. SSE has experienced delays of over five years in the delivery of connections. To illustrate that point, we included in your slide pack the timeline experience for our Slieve Divena II wind farm. As you will note, the planned connection date has been a continual moveable feast and remains uncertain. We would like to highlight that that level of delay and uncertainty is a real barrier to investment and damages Northern Ireland's attractiveness as an investment location. That is particularly the case for SSE, as projects must compete internally for funding. It is most disheartening to lose funding for better projects in NI to other jurisdictions due to something as obvious as a reliable timeline.

Our second point relates to the contestability of grid connections. Northern Ireland operates a shallow connection charging regime. That means that developers must pay for the local wires that are required to connect the generation project to the wider grid system. Currently, generators in Northern Ireland must engage and pay NIE to construct those shallow connection assets in accordance with the rates and procedures that the Utility Regulator set out. In other jurisdictions, including ROI and GB, generators have the option to take responsibility for the connection of those shallow connection assets themselves. SSE has found that the contestable delivery of connection offers cost savings of 20% to 40% and reduces delays in connecting projects, often by years. However, it ultimately gives the developer control over the delivery time frame. We have responsibility for connections of many projects, including our Athea and Dromada wind farms in ROI. We also reached agreement with NIE for the contestable delivery of the Slieve Kirk wind park connection, which I referred to. If we had not done so, the project would not have been built, forgoing the £36 million of local economic benefit that was illustrated earlier. We strongly advocate that contestability be introduced in Northern Ireland for both transmission and distribution connected generators, and we note that the Utility Regulator's work plan has indicated that it will deliver contestability. However, that has been an objective of the regulator for several years now. We urge the regulator to complete that project as soon as possible so that developers may progress their projects in a timely and cost-effective manner.

Our third point centres on progress to develop connection clusters. SSE welcomes the cluster policy that the Utility Regulator introduced, whereby adjacent projects can share transmission and distribution infrastructure. That is an effective way to reduce the costs and environmental impact of that infrastructure. However, SSE has experienced substantial delays in cluster connections being delivered as a consequence of the regulator's policy to require funding approval at a number of different stages of development. Our issue is not the approvals themselves; rather, it is the absence of a defined timeline for decision-making at each of these stages. A more defined decision-making timeline will, therefore, enable developers to move ahead and to construct projects in a more predictable manner.

Furthermore, we submit that allowing the contestable construction of cluster connections delivers on the objective of protecting customers from unnecessary cost, as the first developer will carry the entire investment risk of overcapacity, should others decide not to develop their projects.

Our fourth and final point relates to general network upgrades on the North/South interconnector. SSE highlights that upgrades to the grid are necessary and that there is a general need to maintain and expand capacity to allow the single electricity market to operate as intended and, therefore, to deliver the most cost-efficient dispatch of generation plant on the wider system for the customer's benefit. Of particular importance is the continued delay in the construction of the North/South interconnector, which, as the regulator stated, has cost customers on the island over £16 million per

annum and almost £100 million since the single electricity market commenced operation in 2007. We note the Committee's comments on that in earlier reports.

In these opening remarks, I have sought to highlight to the Committee a number of priorities as perceived by SSE Airtricity, including the economic benefit of energy infrastructure to rural communities, the consequence of delays in grid connections, the necessity of contestability and clustering and, lastly, the importance of key infrastructure delivery such as the North/South interconnector.

Delays that are associated with the delivery of connections make it difficult to make investment decisions. Delays increase costs and undermine the investment case for projects that deliver tangible economic and employment benefits, as we illustrated with our Slieve Kirk example. Therefore, greater investment certainty is required. That can be best achieved through the delivery of a contestable connection framework. Ultimately, the focus must centre on delivering for customers. Thank you.

The Chairperson: Thanks very much indeed for that. Going back to the question of contestability, you used the example of Slieve Kirk and said that, had you not arrived at an accommodation with NIE, that simply would not have been delivered. Will you expand on that a wee bit further? The issue of delays in connections has cropped up time after time with us, as has the whole issue of projected costs and the like and even the fact that NIE's evaluation of a site or a proposal is very, very slow.

I know that you are working in both parts of the island, but what are your views on completely opening up the market to other firms, instead of just NIE providing connections? Clearly, if it cannot do that within a time frame that is efficient for a company or an individual turbine developer, other options have to be looked at. So, what are your views on that?

Will you expand a wee bit further on the Slieve Kirk proposal and how that worked for you? In other words, did you hit a problem that meant that you had to go to NIE and say, "Look, guys we have a problem here. This proposal will not go ahead unless we move to another method"? Will you talk me through the whole process, how it worked and even the length of time that it took? I am sure that, even if the first bit was slow, the second bit might not have been as slow.

Ms Bernice Doyle (SSE Airtricity): I will talk you through the background to Slieve Kirk. Basically, we sought to connect a large project to the transmission system. Previously, all projects would have been connected to a distribution system. In talks with NIE, it said that it was seeking to build a cluster substation or a substation that would accommodate more than simply our project. We then foresaw there being a problem if we went through the standard process at that stage. The regulator's determination on the charging statement and the cluster approvals had not yet come out. So, there was little certainty around the extended timeline for the delivery of other projects such as Slieve Divena II, and we needed to bring certainty into it. We were in a position to build the assets ourselves, and we proposed that to NIE so that we could take control over the delivery timeline.

We got agreement from NIE to build the line from the cluster substation, which is called Killymallaght, back out to the local wind farm substation and some equipment at the wind farm substation. NIE still built the cluster substation, but we funded it 100%. So, that was our way around a whole delay that was caused by the requirement to get funding approval.

The Chairperson: So, did you 100% fund a cluster substation that NIE was projecting to build anyway? Was it saying, "It will be a while before we do that, but, if you want to do it for us, that is grand"? Was that its plan?

Ms Doyle: We knew that there would be delays that would be similar to those for all the other proposals for a cluster substation. We could see that, so our remit was to try to bring control over the delivery timeline. So, we offered to take on the funding risk for the substation build on the understanding that, as further projects were connected into it, we would get a rebate.

The Chairperson: That is what I was going to ask you. You put up the money up front to get a substation built efficiently, which, ultimately, benefited others. So, was part of the agreement that you would get a rebate as and when others came on line?

Ms Doyle: Yes.

The Chairperson: Right; there you go. It sounds like an unusual way of doing things. To my mind, it also sounds a bit of a convoluted way of doing things.

Obviously, you are sharp businesspeople who can see when some things are not being done. How long did it take you, from application point to determination point, to realise that it would not work if you depended on NIE to deliver the substation and that you would have to put a counterproposal to it? I am asking two questions here. After you put your initial proposal to NIE, how long was it before it came back and said, "Look, a new substation is required here, and it will take us x months or years before we deliver that". At that point, how long was it before you went back to it and said, "Look, we have a counterproposal that will solve matters for us". How long did it take NIE to then come back and agree to that? I am trying to get a rough time frame in my mind — it will not be exact to within a day or two. Maybe you or the people who dealt with it up front will know exactly what it was.

Mr Iain Wright (SSE Airtricity): I deal with that in two parts: one is the background; and the other is the best information that we can provide on the timeline.

The background to this is that our experience in the contestable delivery of connections in ROI was such that we thought that this was the correct approach to use in Northern Ireland. At the time, there was no obvious statutory prohibition on anyone coming along and building the network. There was also no statutory requirement for a licensing arrangement for distribution. So, we were trying to push the boundary a bit to make sure that we made use of whatever facilities were available in the regulatory framework in Northern Ireland to deliver the project efficiently. Given that we were first on the route, we made a mistake, however, in that the connection voltage turned out to be transmission rather than distribution. When we started off down the line, we believed that it was distribution and that there was no statutory —

The Chairperson: Sorry, for those of us who are non-technical, can you explain the ramifications of that, please?

Mr Wright: The law says that any wire that is operated at or above 110 kilovolts is transmission. Under the European Third Package, there are restrictions on owning generation and transmission. So, there was that complication that we had not originally appreciated. To build the connection, we wanted to build an overhead line. For that, we required an article 40 consent, which DETI issues. An element of time was spent with DETI working out whether it was within its power to grant us that. In the end, it did so. So, the background to the connection is that we were trying to do it entirely ourselves for reasons of efficiency, which my colleagues set out.

The Chairperson: How long did the DETI bit take? I am trying to get a bit of a handle —

Mr Wright: My recollection is that it took nine or 10 months, but part of that was investigating whether it had the power to do it. Nobody had ever done this before, apart from NIE.

The Chairperson: Was that running parallel to your proposal being put to NIE, or was it in tandem with it?

Mr Wright: Given that we had intended to do this ourselves, bringing NIE into the picture happened slightly later. All the time, we had expected to do the connection application ourselves. So, the whole process of contestable delivery evolved, rather than being deliberately planned at the outset.

The Chairperson: I am sort of still trying to get the time frame from project to going to NIE and saying, "Look, this is what we need". NIE at that point obviously came back said, "Look, we need a substation". At that point, you said, "OK, let's look at this". You then went back to NIE with a proposal to deliver the substation, and you then arrived at that point. I am trying to get a handle on the time frame to all this, because, as a company, you have raised it as an efficiency issue.

Mr Manning: I understand the question. We were breaking new ground; it had never been done before, so at this point the timeline will look as though we took a good few months to get there. However, that is a function of breaking new ground and of everybody getting comfortable with something that could be done.

Your question is this: if you get an offer and decide that you are going to do it contestably, how much faster does that make it?

The Chairperson: If you do not have the details with you today, you can submit them to us in writing. I just want to get clear for the Committee the efficiency of delivery of what you referred to as connections and what you had to do, which was probably unique in that instance. It would be good if we could get a handle on that and then move on to the other part of my question, which was on the whole issue of contestability and delivery. Should that all be opened up? If NIE does not have the capacity — it announced job layoffs yesterday — do we move to the point of involving other private companies? I ask that because we heard in previous evidence that that happens in parts of Britain, whereby private companies just come in and do the work, and that is it, done and dusted. Will you venture an opinion on that? How might you see that operating? It may be that some of you have experience of how it works over in parts of Britain.

Mr Manning: Referring back to the first part of the question, because Slieve Kirk broke new ground, it might be useful to look at other wind farms that we have delivered contestably from the offer point to the point that we move forward. That will give you a clear sense of how an efficiently operating, contestable environment changes the delivery time frame. So, we will come back to you on that, if it is OK.

The Chairperson: That is grand. Thank you.

Ms Doyle: I can talk through one of the ROI examples, if that helps. In ROI, you would make an application for a connection, and you would be given a connection offer —

The Chairperson: Sorry, is this to ESB?

Ms Doyle: It is to ESB Networks. It would give you an offer in which it identified the portions that are contestable and non-contestable.

The Chairperson: Right.

Ms Doyle: You, then, have a window to elect to contest some portion of the contestable works.

The Chairperson: Right.

Ms Doyle: That window is open from the time that you sign the offer for your connection agreement until the point where the system operator goes into a detailed design. So, your window closes once it starts engaging in delivering your grid infrastructure.

The Chairperson: Is the contestability bit determined in statute, by the regulator or whatever, or is it just left to the company to say, "Well, we'll allow you this bit of contestability, and we will not worry about the other bits and pieces"?

Mr Wright: The background to that comes the renewable energy sources (RES) directive and the internal market in electricity (IME) directive 96/92 before that. The 2001 and 2009 directives state that member states may allow producers of electricity from renewable energy sources wishing to be connected to the grid to issue a call for tender for the connection work. So, the background is in European directives. In Ireland, the statutory route has been followed. The first approach to that was in SI 445/2000, where the Electricity Regulation Act was amended to allow transmission-connected generators to undertake contestable works. SI 226/2009 gave generators the right to construct part of the connection to the distribution system. In GB, they have gone down a different route. There is not the same statutory backing for it, but Ofgem has taken the view that facilitating competition is the basis on which it wants to promote contestability. Its website has a couple of comments, one of which is:

"We are committed to promoting competition within the energy markets as a mechanism to benefit consumers through increased quality, or decreased prices, or both. Natural monopolies inevitably make it more difficult to promote competition.

The installation of new connections assets helps to minimise natural monopolies through the creation of an element of competition."

It then goes on to talk about independent connection providers and independent network operators. So, that is the underlying philosophy that Ofgem brings to contestability. It has incorporated

conditions in the network operators' licences that require them to separate contestable and non-contestable aspects. So, you can have it through statute or general competition.

The Chairperson: Bear with me; I am sort of on a bit of a roll with this. Is the applicability of that EU directive subject to interpretation by each member state or, as in our case, each region?

Mr Wright: Yes, it is. The contestability bit is the phrase "member states may".

The Chairperson: So, it is not "shall"?

Mr Wright: No.

The Chairperson: OK. Leading on from that, the Ofgem bit seems perfectly sensible to me. Why would that not be as applicable here in Northern Ireland?

Mr Wright: I do not see any reason why it would not be equally applicable.

The Chairperson: Right. That brings me on to the next question. In the South or GB, can a single developer employ the resources of a private firm just to do the connection bit?

Ms Doyle: Yes. That is what we do.

The Chairperson: So, that is not you? Do you just bring in a contractor to do it for you?

Ms Doyle: Once we elect to contest the connection works, we get detailed technical specifications ultimately from ESB Networks. Those tell us exactly what it requires us to build. We then go out to tender to a private contractor, and we manage the delivery of those works. The delivery is overseen; there will be site visits and regular meetings with ESB Networks and EirGrid to ensure that what we are delivering is up to their standards. At the end of that, there is a handover process where the asset is transferred back to ESB Networks.

The Chairperson: Of course, the big question for us is this: why is that not being done here? I am not asking for an answer to this, but the complaint that we regularly have is about slowness in connections. We are seeing it being done down South and over the water. The simple question is this: why is it not being done here?

Mr Manning: Slieve Kirk proved to be an excellent case study of how it can be done well. All the relevant information associated with it has been provided to the Utility Regulator. The Utility Regulator has committed in the work plan to delivering contestability. I made one or two points in my earlier remarks about timelines. It has been said that it will be delivered; it is now just a case of moving on and delivering it.

The Chairperson: I have one final question. You are aware of the RP5 and the commissioner's decision. You are obviously watching this; you are astutely involved in the industry. As for what RP5 determined, from what you read from what the Utility Regulator is proposing, can that contestability or changes to it be introduced within the current term of the licence?

Mr Wright: I do not see any reason why not. The Utility Regulator started off the process at the end of 2010 when it pointed out in a consultation on the whole connection regime that there are currently no formal mechanisms in place to allow generators to tender openly for the construction of the works. In their next steps paper, which looked at comments coming back from interested market people, they said:

"It is proposed that the Utility Regulator will investigate further the introduction of contestability for connections. This program of work will run in parallel with the RP5 Program."

We have provided to the Utility Regulator the background documentation for our connection at Slieve Kirk and how the process worked, but there is not a formal process in place yet. That would obviously have to be agreed to allow it to be done in a methodical manner.

The Chairperson: Thanks very much. That has been very helpful.

Mr Dunne: Thanks very much, folks, for coming in this morning. The delays in connection by NIE are an issue that we have looked at considerably. What can NIE do to improve its processes and systems to try to reduce that? It is an ongoing problem. The Chair touched on some of it, but what more can be done? You have given an example — if I read it correctly — of the Slieve Divena connection. Is that five years? They pushed that out five years on you.

Ms Doyle: The current date is based on assumptions of approvals for funding. There are no defined timelines, so that could certainly move again.

Mr Dunne: The point has been made here that the level of delay is a real barrier to investment and damages Northern Ireland's attractiveness as an investment location. Do you think that is the case? Those sorts of delays have a knock-on effect. Does NIE need to get smarter about how it manages those processes? I suppose that is the bottom line of my first question.

Mr Manning: I am happy to take that one. From the conversation we have had so far, I can say that the role that contestability can play can be very important in allowing timelines to be achieved. Having contestability there provides an incentive to everybody to perform to those timelines.

With regard to the second question, which was around the loss of investment, if I have a development that I want to deliver here in Northern Ireland and I have my competing colleague over in Scotland who similarly wants to attract SSE funds, and if I say that the timeline is x, but they look at me and say, "But, we don't really have certainty on that, because we saw what happened with Slieve Divena", I will lose that capital investment to the other competing bidder within my own company. For the three of us here at the table, a large part of our job is attracting SSE capital investment here to Northern Ireland, so we would like those timelines to be a lot more stable so that our company can have confidence in what we say to it and it will want to spend its money here in Northern Ireland.

Mr Dunne: OK. There is a real issue that needs addressed. Do you feel that it is a matter of resources with NIE? Is there a lack of resources and a lack of commitment to running that section and dealing with it?

Mr Manning: I do not think it would be appropriate for me to comment on that.

Mr Dunne: Those issues that you are aware of: there is a complaint, "We can't manage; we haven't got the resources to do what you want on time". Is that part of the problem?

Ms Doyle: It is not something that we have had directly highlighted to us in our dealings with NIE, but again, as David was saying, above all, we value certainty. If you have certainty, you can plan. Even if it is certainty of a longer period for decision-making than we would like, at least you can plan for that. The real issue for us at the moment is that we just have no certainty. Having to get multiple stages of approval with each of those stages having a high level of certainty is, for us, the nub of the problem, because we cannot plan for when we will have a decision.

Mr Manning: It is analogous to the planning system. In the planning system, you put in your planning application, then it goes to statutory consultees, but there is no defined timeline for statutory consultees to reply. That is coming in in the first quarter of next year through the Planning Act, which is very welcome. If there is no defined cut-off date by which time you have to respond, things just get lost in the ether.

Mr Dunne: You got planning permission for this project, Divena, in 2007, and your timeline is that it will run out in 2017, so you have it for 10 years. Prior to those 10 years, you processed the application.

Mr Manning: Yes.

Mr Dunne: So, you are out to 13 years, maybe.

Mr Manning: That is a particularly good example of why it becomes difficult to talk to our financial people and say that we would like to make this investment. A lot happens. A lot happens in a week. A lot happens in 10 years.

Mr Dunne: Yes, I think we made the point. The whole thing needs to get a lot smarter and more realistic. I have been involved in other engineering projects in my previous job, and the lead-in times are incredible on some things. For various reasons, they have to be. You are talking 13 or 14 years for this. The requirement changes. Things change so much. Look at the way that the economy has changed here and is changing back, we hope. You make the point that we certainly will need to put pressure on.

On the planning permission issue, we have evidence from various groups, and there is a strong argument that the planning and the NIE bit of it should be run in parallel. You are not sure about that. Is there not an argument that, maybe for smaller systems, they should be?

Mr Manning: The best way is to give the example of what has happened in ROI. In the gate process, grid connection offers were given in the absence of planning. As a consequence of that, would-be developers were in possession of a grid connection offer but then may never have got planning and the project would never go anywhere.

Mr Dunne: Was there no timeline on those grid connection offers?

Mr Manning: You might want to correct me on this as we go along. Once a developer pays a deposit, they have rights to that grid connection offer.

Mr Dunne: The deposit secures it for them.

Mr Manning: Exactly. Our experience has been that some developers have taken that as an asset and will approach a company like SSE or another larger developer and say that they have a grid connection at this point and ask whether the larger developer is interested in buying it from them. I hold the view that all that does is add unnecessary cost into the delivery of infrastructure. You are adding value. It is almost like producing a property bubble around grid connections. So, in our view, we can learn lessons from what happened in the South on that, and, in the North, we would be disinclined to see a situation whereby they would run in parallel. It is important to retain the current system, whereby you have planning and then you secure your grid connection.

Mr Dunne: Finally, a point on NIE came to mind. What sort of consultation does NIE give to a potential developer without planning permission? Is it willing to engage and get involved in genuine pre-discussions and give some indication about whether planning permission will be achievable or what is required to achieve planning permission etc? Or, does it wait until —

Ms Doyle: You have your planning permission and you make your application.

Mr Dunne: Yes.

Ms Doyle: You cannot enter the formal connection application process until then. NIE is always open to sitting down with us and talking about its cluster substation plans, including what capacity will be built into those plans and how much it is seeing currently in the pipeline. So, its cluster substations will look at what is in planning or with planning in a specific area and try to build out the grid connection for those in an efficient way. We are in this situation where we are stuck in planning for quite a long time and we cannot go into the connection application process, so the other approach that we have taken for some of our projects is that we have sought to engage NIE to carry out studies for us to try to look at potential connection points and costs. We have to pay for that because it has to undertake quite technical studies on load flows and short-circuit analysis to understand exactly what the implications are of us connecting a certain point. So, we have done that for projects that are still in planning and for which we are not in the connection application process. Obviously, that costs money, and the developer has to be willing to pay for that.

Mr Dunne: It is all costed risk, really.

Ms Doyle: Yes.

The Chairperson: I will pick up on a couple of themes that Gordon was developing. One was the, if you like, power developer bubble and how planning before application and those types of things could contribute to that. A distinction has been made to us about the huge wind farms and that you can do that and how that potential could arise. The other case that has been put to us is that, while that can

apply to the huge developments and wind farms, it should not be the case for individual single turbines. Do you have an opinion on that?

Ms Doyle: I think that the principle needs to be that all generators are treated equitably. I would be concerned about an approach that starts to differentiate between different types of generators.

Mr Manning: There is an additional point to that. I heard an interesting statistic. If I remember correctly, there are 650-odd —

Ms Doyle: There are 670-odd —

Mr Manning: There are 670-odd single connections, and if you do that at about 250 kilowatt per unit —

Ms Doyle: It ends up at about 138 —

Mr Manning: You end with about 140 or 150 megawatts of a connection when you aggregate all those single generators. That is quite a substantial amount.

The Chairperson: That is presuming that they have all been shored up by one developer or two developers. If your argument is about the competition and that somebody can scoop it all in for themselves —

Mr Manning: Yes, but the point that I am making is that when you think of it in that context and you think of the work that NIE needs to do in order to look at load flows, how the network needs to be developed and the type of reinforcement that needs to take place in the network, whether you are a single guy or a large guy, there is still quite a lot of work to be done there.

The Chairperson: That brings me nicely to the next part of the question. When representatives from NIRIG were in with us, they said that they believed that developers should have access to NIE's geographical information system so that their own studies and their own conclusions could be done about capacity and those types of things. Obviously, I do not know enough about that to even comment on it. That is why I am asking you this question: would you find it of benefit commercially if you had access to that data? If you had access to that data, you could very quickly commercially rule out certain locations if they were not going to be workable.

Ms Doyle: I struggle to see how that would be of significant benefit, in that the analysis that NIE will undertake to determine where you can connect is quite technical and the expertise involved is not widespread. We would have only one or two consultants who we use to do that kind of work. To say that a small developer with a small site would be able to take a GIS and extrapolate from that the impact of their connection and others in their area on the wider system —

The Chairperson: I do not think that that was the argument. They were talking generally. Would that be advantageous to you?

Ms Doyle: I struggle to see how it would be. We have gone to NIE and engaged it to do a study. Without its GIS, we have looked at the network and said that, for this site, here are three potential options that might work for us to connect, and then we go to NIE and ask it to scope out a study to look at those and look at the deeper impacts and the technical analysis on those options. We engage NIE to do that for us. There is not so much that we can do ourselves with that. We can look at it, but it does not have any type of technical analysis. It is not advantageous to us.

Mr Manning: I think that I would ask why that is the case. You have got a position, but you would like access to this information. Our question would be about why that is the case. We see a large volume of information and we are not just quite sure what you do with it. If there is a rational argument to say it is hugely advantageous, OK, but I do not know. So, my question is about why that is the case.

The Chairperson: You already know what it is anyway.

Mr Manning: From our perspective, we would not see —

The Chairperson: OK. I just had to ask the question.

Mr Anderson: Thank you everyone for presenting to us this morning. I have a couple of questions. Can I refer to the time taken for the connection to the grid? Action Renewables commented on the discrepancy between Northern Ireland and GB with the time it takes to connect. It said that it believes that NIE does not have the resources to speed this up and give that faster connection. Do you have a comment on that?

Mr Manning: At the risk of repeating, the only comment that I would make is that we have seen the advantage that contestability brought in that example of Slieve Kirk and in other jurisdictions. That would be a natural next step to improve efficiency and delivery of grid connections.

Mr Anderson: If there was more competition, maybe there would be better and quicker connection. Is competition an issue?

Ms Doyle: As Iain said, the Ofgem basis for delivering contestability is to promote competition. That will help to drive down costs. It enables developers to take the risk on themselves when delivering the infrastructure at the best market price they can find. In our experience, we have seen it deliver in ROI and GB. It delivers those significant savings for us.

Mr Wright: In the Utility Regulator's 2010 consultation, when they asked the question, I think 16 out of 24 respondents addressed the issue of contestability. They all said that it was a good idea. NIE in its response said that it would support a move towards competition in connections. Within the community of people who have an interest in this, there is a general acceptance that contestability is appropriate. For completeness, I should point out that, in talking to the Utility Regulator, I understand that they are preparing a consultation on connection policy.

Mr Anderson: The time taken for grid connection is a big issue. Whatever way we can move it forward, whether by competition or otherwise, it certainly is a great need, but that is an interesting point.

Is there any reason why developers should not be permitted to generate their own electricity for their own use without being required to connect to the grid yet retain that right for connection to the grid for, say, additional electricity?

Mr Manning: I just want to understand the question. Are you saying that they are generating for their own consumption and not for export to the grid?

Mr Anderson: Yes, but they would still have that leeway if and when required.

Mr Wright: Much of industry will quite often have CHP or other on-site standby generation. However, there are technical issues where you are connecting an on-site generator to a wider system because they interact, so technical standards are in place that manage that process.

Mr Anderson: Is that the problem and difficulty, and no other reason? Is that more or less what you are saying?

Mr Wright: It is not an organisational problem. It is just physics.

Mr Manning: If you are going to put in a unit to produce for your own consumption, fine. If you are going to put in a unit to produce for your own consumption and potentially export, that has a requirement for upgrade works, so a cost is associated with that. You need to be clear in your own mind —

Mr Anderson: Is the initial cost the great leveller here? Are you saying that it would not be feasible unless you were exporting to the grid?

Mr Manning: You would have to do your own cash-flow assessment. If I am going to put in a unit and I want to export from it, in order to do that, I will be required to do certain upgrades. You have to factor that into the cash flow of your investment. That will increase the capital investment needed at the get-

go. If you are going to produce for only your own consumption to meet, say, 90% of your own need, do not connect to the grid and you do not have to worry about that capital cost.

Mr Anderson: But there is the possibility of it being there due to expansion or whatever later down the line.

Mr Manning: Then you need to factor in what that cost is going to be in your initial investment.

Mr McKinney: Thank you for your contribution so far. You talked about the delays opening up to five years being a barrier to investment and a general jeopardy, if you like. Can you quantify that jeopardy in projects or millions?

Mr Manning: I will put it the simplest way that I can. Let us go back to the Slieve Kirk example. Slieve Kirk was a £125 million capital investment, of which £36 million was invested in 75 local businesses. Had that connection continued to be delayed, we would not have built that wind farm. That £36 million worth of investment would not have occurred, and that economic value and job creation would not have occurred in that area. That community also can look forward to another £18.5 million over the lifetime of that wind farm, which will be contributed to the local community. So, what is the economic cost? It is the value foregone; and, in that case, the total value foregone is £55 million to the local community.

Mr McKinney: Yes, in the case of Slieve Kirk.

Mr Manning: That is just one example.

Mr McKinney: You are saying that, had that not happened, that would have been the case.

Mr Manning: Yes.

Mr McKinney: Are there other projects that are now delayed? I know that we are now talking about — is it Slieve Divena? I am sorry; I must get the pronunciation right. I should know because I was born in the neighbouring county, but there we are.

Mr Dunne: You have been away too long.

Mr McKinney: Are there projects other than those that are not likely to be carried forward as a result of these delays? That is the simplest way to put it.

Ms Doyle: At the moment, other projects that we have are still in the planning phase, so we do not have connection agreements. There is another project for which we have a connection agreement, but we are not concerned about the delivery of that because it is beside an existing substation, so it is a different situation. Other projects that we have in the portfolio are in the planning and are due to come out at various stages in the near future, we hope. The issue is that we already see that they are tied to NIE cluster substations that do not have approval, so we can already see that they are going to get into the same problem.

Mr McKinney: The other jeopardy attaches to the overall renewable energy target development. Is that hindering the attainment of government targets?

Mr Manning: It is part of a number of issues that are delaying the delivery of the renewables targets, yes. I can go back to my example of planning again. The delays in the timeline associated with planning is another issue. As we said, our preference is to see planning, so that, when you have decided that you want to build a wind farm in a particular location, you can go to NIE and talk about your grid connection. So, I am not inclined to focus on grid as the party solely responsible for putting Northern Ireland under pressure to meet its 2020 targets. But, is Northern Ireland under pressure to meet those targets? I would say yes.

Mr McKinney: I want to refer to one very specific thing. It probably applies more to minor projects. It is about quotation levels and timescales for NIE. What are your views on the 90-day period?

Ms Doyle: We have a similar situation in ROI, for example. There is a 90-day period. We find that, in general, we get the offers within that allotted time frame, so that particular timeline has a degree of certainty to it and, once there is certainty, we plan for it. So, yes, if we could get it in two weeks, that would be great, but, as we get it in 90 days, we plan for that and, generally, it comes out the other end. So, that does not present us with a particular issue. The main issue is thereafter, that is, getting the timelines for the connection dates.

Mr Manning: If you have your project timeline, whether it is 90 days or two weeks, once you know what it is, and it is delivered within the timeline, you can plan around it. It is the certainty argument.

Mr Agnew: Thank you for your comments so far. You have obviously seen the latest outcome from the Competition Commission on grid investment. Publicly, there is a lot of focus on short-term costs to consumers, but, obviously, a lot of this investment is for the long term. Ultimately, we hope that it would have benefit for consumers. In general, with price controls, do you believe that enough emphasis is being put on the long-term investment that is required? Do you believe, for example, that the Competition Commission's determination is in any way going to be detrimental to your business?

Mr Wright: Rather than look specifically at what the Competition Commission does, because that is one instant in time, one of the responsibilities of regulators is to balance public interest over the long and short term, as you said, but they also have to take account of policy developments. The regulator has to balance the need for 40-year investments of very capital-intensive works and when those will be required. There is the timing issue, the question of how much is the right amount to pay and how much do they need to take account of technology changes or distributed generation rather than centralised generating units. There are an awful lot of competing issues to balance and there are policy developments over time.

I also think that Ofgem has shown that there has recently been a move towards more incentive-based regulation. Taking this in the round, it has to be a matter of judgement. The regulator and the Competition Commission have had access to all the information that can be produced and they have pored over this and analysed it. Anybody from outside could say only that they have made a judgement that is based on their own area of expertise and we must accept that.

Mr Agnew: We are going to hear from NIE after you, but some might say that the determination puts the renewables industry — perhaps not the industry but the ability of Northern Ireland to meet its targets — at risk. What is your response to that?

Mr Wright: One of the statements that the regulator made in 2011 was that it would look at contestability for connections in parallel with the regulatory period 5 (RP5) programme. It is fair to say that RP5 took longer than initially expected but, nevertheless, our experience in Slieve Kirk enabled us and NIE to provide the Utility Regulator with information on how the process worked, albeit it evolved as it went along. Perhaps, the amount of parallel work that was hoped for has not arisen, but I believe that now RP5 has been put to bed, so to speak, the regulator will be able to advance with the contestability and wider connection policy with a more certain policy framework. I expect that, within the next few months perhaps, up to a year, developers will have greater certainty on the extent to which they will be able to deliver on connections and, as Bernice pointed out, able to take control of their own projects.

Mr Agnew: One of the issues that came up while we have been investigating this matter is that, ultimately, every investment ends up with a knock-on cost to the consumer. Questions have been raised about whether developers should take on more of the burden. Contestability sounds like that may be the case, although I would be interested to hear how much you pass on to the consumer. It has been questioned whether NIE should take some of the hit. How do you see the cost of investment being metered out, particularly with reference to contestability? You mentioned taking on more of the risk; does that ultimately mean taking on more of the cost as well?

Mr Manning: I will answer that in two ways. For many of us operating in this sector, be it in conventional generation or as a renewable generator, NIE as the network asset owner, or suppliers, our focus is on acting in the interest of the customer. Doing that, as we know in energy policy, has three dimensions to it: security of supply; competitiveness — and affordability is a very significant issue within competitiveness — and protection of the environment. There are three interesting and challenging targets that have to be hit in the process of doing that. You and Iain made the point; these are long-term investments for periods of over 40 years. If I were NIE, or I were in whatever jurisdiction, I have a risk profile and a responsibility to assume all the risk. Therefore, I need to price in

that risk. Through contestability, you are moving that risk on to the developer. Think of it as an insurance premium being moved from NIE to the developer. As a consequence of moving that risk, we will have a different perspective on that risk profile. We will have closer intimate knowledge of the project we are delivering on. Therefore, in a sense, we have more knowledge.

In my opening remarks, I stated that our experience of delivering contestability has seen savings in the region of 20% up to 40% in the connection. In the interests of the customer, that 40% gap is the saving accrued to the customer as a consequence of that activity.

Mr Agnew: Are there any examples of you taking on risk and, for whatever reason, it not paying off? Is the consumer at a detriment if they are seeing the advantages where contestability works?

Ms Doyle: We have not seen any situation in which that has occurred to date. The fact that we are already making such significant savings by going down that road gives us a lot more headroom with what we are designing into the costs of the project. The principle is very well understood from a developer's perspective in the regions in which there is contestability: you take on that risk. If you build a shared asset that allows further projects to develop, you take that on. If those projects do not materialise, you have to bear that cost. There is a rebate process back to you from the projects that materialise and connect.

Mr Manning: If the rebate process does not materialise, in answer to Mr Agnew's question, you are the one who made that decision to make that investment, and the risk is yours to bear.

Ms Doyle: The parallel scenario in a non-contestable world is that you pay 20% to 40% more. The customer pays for a shared asset at a premium rate of 20% to 40% more through NIE, or whoever builds it, but you still have the risk that the other parties or projects will not materialise. The customer then bears the loss of that cost, which is 20% to 40% more.

Mr Wright: The regulators and others have done studies of the impact of renewable energy on the price of energy in the single electricity market. They found that, because of the zero marginal cost, renewable energy has priority of dispatch, so the marginal price on the system is lower. The marginal price is the market price of electricity. There is a benefit to the customer in having more renewables constructed because it feeds back through the electricity price.

Mr Agnew: We still do not have the payback period for the customer or the investment to savings. That is something I have been pushing for. If you have any information that can feed into that, it would be very helpful.

If you came to us today with the one objective of saying that contestability is the answer, you have succeeded; that is coming through loud and clear. Another solution proposed to us by a number of witnesses was smart technology. Could that be a big part of the solution for you, or is it a side issue? Obviously, as I said, I have got the message about contestability. We will run with that. How much of a role can smart technology play?

Mr Manning: Perhaps Bernice will talk more about this. NIE has adopted a number of technology advancements in that space, such as dynamic line rating, which is a very important innovation in how we maximise the use of the grid. Maybe Bernice will say a little bit more about that in a minute. The smart space is fascinating. The reason I say this is because, until now, energy has not really changed much in 100 years. Generation moves across a power line and the customer consumes it. We are now moving into a world in which customers will have more control. They will have more awareness of how they consume energy. That information will flow back through the grid to the generation stations so that generation is despatched in the most efficient way possible. What you will find in the middle of that dynamic is a smart grid that is capable of utilising telecommunications technology to move information through the system and therefore limit the investment that is actually needed in order to meet demand at a particular point in time.

We are involved in a really interesting project that includes Glen Dimplex and its quantum heating project. I was before the Committee previously speaking about it. You have a load at the customer's home. When the wind is blowing, but there is not full demand for it, what you do is take cheaper energy at that point in time and store it in a heating device. That is a very clever and efficient way to maximise the full use of the physical assets that you have installed, thereby lowering the cost of those assets and lessening the amount of assets you have. That is the tip of the iceberg when it comes to smart technology.

The analogy that I always use is that of the telephone. We remember what the telephone looked like 20 years ago. Then, we remember when Nokia came out with its first handset. Now, look at the smartphones that we have today. That massive evolution in telecommunications technology is now starting to permeate into the energy sector and how those two sectors cross over each other in how information flows.

Ms Doyle: I just want to add that NIE and SONI, as proven system operators, must always be cognisant of their priority to keep the lights on. So, they have to move. There will always be a time lag between those technologies, like in telecommunications, filtering through to the electricity system. Rightly so: they must be inherently conservative and keep their priorities straight.

Having said that, I commend NIE and the steps it has taken down that road — for example, the dynamic line-rating schemes and special protection schemes — because that makes most use of the existing network. So, instead of having static ratings on lines based on the worst-case scenario, a really hot summer day, it can actually change the rating depending on the weather conditions and temperatures. That is a really good way to maximise the utilisation of the infrastructure that we have. We have actually seen the EirGrid and ESB networks to be much slower in the Republic of Ireland in seeking to adopt those kinds of technologies and test them in a measured and controlled way. NIE has gone down that road. We commend it for that.

The Chairperson: Thanks very much indeed for that. I have just one question. It is a bit of a no-brainer, but I just want to put it on the record. You mentioned the contestability issue, the movement of risk and indeed the reduction of costs at that time. Just for the record; do financiers from the company and externally look at that as positive in that it makes the connection more efficient, speeds things up and basically gets them an efficient return for their money? Is it a good thing or a bad thing with regard to the confidence of the market?

Mr Manning: Well, if you are look at making an investment and at what the net present value (NPV) of that project is, what its cash flows will be over its 20-year life expectancy and the upfront capital cost, and you reduce the upfront capital cost, your cash flows are positive and you end up with a positive NPV, your financier will look at you and say that you have a positive project. So, if you can reduce your upfront capital cost, that is a positive thing.

The Chairperson: That is all that I wanted in the Hansard record.

Mr Manning: Ultimately, it is positive for the customer, which is where a lot of our focus is.

The Chairperson: That is OK. Thanks very much indeed. That proved very interesting indeed. Thank you for your time with us today. You are in better form today, Mr Manning, than you were the last day that you were here. I know that you will provide us with some information about —

Ms Doyle: The timelines —

The Chairperson: — the flow of the projects themselves and how you move from one stage to another in your ventures. That will be very helpful. If you are amenable, we will supply any additional questions that we have to you in writing if you are happy to answer them.

Mr Manning: Certainly.