Written Ministerial Statement

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Department for the Economy

GLOBAL ENERGY CRISIS

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Mr Lyons (The Minister for the Economy): Members, there can be little doubt that both business and domestic customers are facing a very significant increase in energy costs, coupled with rising costs relating to a wide range of everyday items as inflation hits record levels.

We are far from unique; populations across the globe are facing unprecedented worldwide increases in fuel prices, driven by a rebound in demand following the pandemic, supply disruptions in the wake of Russia's invasion of Ukraine and ongoing disruption to supply chains from China's ongoing lockdown policy.

These events have caused significant economic disruption and the real risk of financial hardship for tens of thousands of households across Northern Ireland.

These global events are manifested locally with increases in the cost of coal, petrol, diesel, gas and home heating oil, and as a result electricity, more than half of which is generated from coal and gas in Northern Ireland.

I have sought to address the risks and this statement seeks to provide Members with an update on where we are and the actions I have taken.

Energy Payments

Whilst the £400 energy payment scheme is, in policy terms, more closely aligned to targeting fuel poverty, for which the Department for Communities leads, I have sought to ensure that these payments are delivered to households in Northern Ireland at the same time as those in the rest of the United Kingdom.

During the pandemic we saw that national and devolved administrations each have their own strengths, and at times a national solution is simply more efficient and effective than a devolved one. Furlough is the obvious example, but one should also view the DfC Kickstart / Jobstart fiasco as a cautionary tale against trying to develop a bespoke solution when it is simply not necessary.

My priority has always been to ensure that people in need of support receive it as quickly as possible. It would be unacceptable for people in the rest of the UK to receive discounts to their energy bills in October whilst people in Northern Ireland cannot until next year. For that reason, the optimal solution, whether we had a fully functional Executive or not, would be for the UKG to lead on the delivery of this scheme.

It is worth noting the precise wording of the former Chancellor's statement on the payments, delivered in the House of Commons on 26 May 2022, was "we will legislate to deliver this support on the same terms in every part of the United Kingdom, including Northern Ireland."

I met with the Chancellor of the Exchequer, alongside the Minister for Communities, the Utility Regulator and officials on Wednesday 10 August, and again on Monday 15 August.

Everyone agreed that we needed a solution which was legal, simple and ensured people in Northern Ireland saw the £400 energy support payment at the same time as elsewhere in the UK.

Following that meeting, the Chief Executive of the Utility Regulator (UR) provided a detailed mechanism for delivering the payments directly to the local energy providers. That proposal was developed in conjunction with the local energy providers and was the optimal way of delivering the scheme in Northern Ireland.

Many Members will have heard the UR commenting on his proposal in a series of broadcast media interviews this week, but in essence it involves UKG contacting the six local energy suppliers in Northern Ireland, and the payments would be allocated as per the meter references. NIE already hold this information. On the basis of these references, a £400 reduction would be made to consumers bills, or for keypad customers they would be able to draw down the £400 as they vend through the keypad process.

It is disappointing that more progress has not been made by Treasury officials. I, and my officials, continue to press HM Treasury to deliver this support in Northern Ireland as a priority and as quickly as it is being delivered in the rest of the UK.

Profits in NI generation companies

In recent weeks, some MLAs have engaged in commentary and protests about excessive profits for energy companies. Whilst this is undoubtedly the case for the big oil companies, there seems to be a degree of confusion over the differences between the large global corporations and the local energy providers who supply local customers with their energy.

In the Single Electricity Market (SEM), which is the wholesale electricity market arrangement for Northern Ireland and the Irish Republic, generators compete to sell electricity which is bought and sold through a single pool designed to increase competition, efficiency, and security of supply.

The price for generation is determined on an hourly basis, based on bids from the lowest-cost producers of electricity (almost always renewable generation, which generates at a near zero marginal cost, as the fuel is 'free'). Until recently, coal has had the next lowest cost, although it is significantly more polluting in emissions than natural gas. Finally, gas fuelled generation has been topping up supply to address remaining demand.

Under the current market design (which also operates across GB and Europe), it is the last (highest cost) entrant to the market in each hour that sets the price for all market participants. Thus, increased gas costs have pushed up all wholesale electricity prices.

Generators which had bid at a lower price increase their profitability which provides funds for these producers to invest in further production, although it may take some time for this to reach the market.

Changes to these market conditions are complex, legally constrained and tied to market conditions across the UK and Europe. Before the recent surge in energy prices, governments and policy makers were considering changes to energy market design to ensure it remains optimal for delivering investment in low carbon technologies. The recent price increases have brought this work forward and Northern Ireland authorities are doing the same within the context of the SEM. This also drives delivery of the Executive's new energy strategy, which I published last December, to secure affordable, reliable, sustainable energy at least cost while protecting consumers. I continue to meet with the Utility Regulator, with System and Network Operators and others to ensure the focus remains on these objectives.

Price Cap

Some of the most alarming commentary from MLAs and elements of the media has been around the need for a 'price cap'. Unfortunately those calling for a 'price cap', similar to GB, neither understand the differences in the GB and NI markets, nor grasp the role of the Utility Regulator here in Northern Ireland. In effect, the 'price cap' is price regulation, something we already have in Northern Ireland.

The Northern Ireland energy market is very different from that in the rest of the UK and the current system of pricing for consumers is a combination of price regulation and competitive pricing. There are no plans to introduce a price cap as our price regulation of the dominant suppliers in electricity and gas ensures that customers pay no more than the efficient costs of purchasing and supplying gas and electricity plus an agreed profit margin set by the NI Utility Regulator.

The regulated price then acts as a “price to beat” for the other suppliers. Regulation of gas and electricity markets in NI includes a cap on profits (2% for gas and 2.2% for electricity) which are lower than comparable figures in GB.

Conclusion

Unfortunately there is no easy solution or quick fix to the pressures currently faced by families or businesses. Whilst we have in our energy strategy a road map to medium and long terms solutions, in the short term we face considerable challenges. I can assure Members that I remain committed to doing what I can to be open, transparent and honest about the pressures, and pledge to keep Members informed as we approach the winter months.