

NI 05 08

## **Developing More Competitive Energy Prices – a CBI discussion paper, June 2008**

### **Summary of Key issues**

- **Businesses are extremely concerned about rising energy costs, and the continuing price differential in electricity costs with GB and other international markets, whilst recognising that price increases have largely been driven by rising global fuel costs. These concerns are highest in manufacturing companies trading internationally who face the full force of global competition**
- **While the creation of the SEM has led to short term cost increases of less than 2% overall, the structure of capacity payments has resulted in higher night-time tariffs which have a particularly negative impact on larger manufacturers with continuous 24x7 operations**
- **Ensuring the Single Electricity Market is fully competitive and effectively working is essential – there are particular issues which need to be closely monitored:**
  - **Rigorous policing of bidding codes of practice and rapid action to address complaints**
  - **The lack of a secondary hedging market (reducing the scope for competition)**
  - **Lack of transparency with regards to Imperfection charges and incentives to minimise them. These must be charged in a cost reflective manner – the re-establishment of a Market Forum by the Regulator is recommended**
  - **Attracting new efficient generating plant will be key means of increasing competition in the SEM**
- **While final electricity prices remain significantly higher than in GB the differential at the wholesale price level between the SEM and GB markets is not significant – power coming across from GB is effectively faced with an additional 20% of costs (including additional capacity payments and PSO charges). There are technical issues associated with the interconnector which limit its potential and need to be reviewed**
- **Large industrial energy users (with flat 24/7 loads) are paying disproportionately high PSO charges especially relative to the domestic consumer – these need to be reviewed with some urgency, while the Regulator should also provide greater transparency and an indication of trends**
- **We need to start planning now to address the longer term issues associated with climate change, and ensure that the necessary investments and planning policies enable this to be done in a least cost manner**
- **Investment in energy efficiency and the development of renewables, including energy from waste, need to be accelerated.**

## Introduction

- 1 Over many years energy policy has remained a high CBI priority, as prices have remained substantially out of kilter with the rest of the UK (and internationally) putting NI manufacturing companies in particular at a competitive disadvantage. In 2008 with companies facing intense cost pressures, of which rising fuel prices are a key element, globalisation means our competitive position relative to our international competitors is more important than ever before, while the price disparity with the UK and elsewhere appears to be significant. Companies have been facing electricity price increases in excess of 15-30% in April and for those companies coming out of two year contracts price rises of 35-50% are being quoted.
- 2 These increased costs come at an unwelcome time for the NI manufacturing sector in particular who face the full force of global competition and have for some years been disadvantaged by high energy costs. In addition to energy costs, rising transportation costs (through higher fuel costs), increasing costs of regulation and indirect taxation through the Climate Change Levy, increased excise duties on HFO and IPPC requirements continue to impact on companies' ability to compete.
- 3 2007 has seen the introduction of the Single Electricity Market (SEM) on the island of Ireland – a welcome move. But we are under no illusions. The long-term benefits of this market will only come to fruition if a fully competitive market, with new efficient generating capacity is developed and barriers to trading removed, otherwise the benefits which should flow to consumers will not offset the costs of establishing this new market. For many years companies have argued that a fully competitive market did not exist within Northern Ireland with few competing suppliers. While we are only in the first few months of the SEM there are no noticeable signs that this situation has changed. Despite customer views that electricity prices are higher than in GB only around 45% of the Moyle interconnector capacity is being utilised (average load factor Nov 07 to Feb 08). While at first sight this suggests that the market is not working properly, a more detailed assessment indicates that with transportation costs, transmission losses, and associated risks taken into account, together with additional SEM costs (capacity charges) and PSO costs, a final price differential with GB of around 15-25% continues to exist (while prices in both wholesale markets may not be too dissimilar).
- 4 In 2007 we also saw the extension of the natural gas network both in the south and to the north west of the Province, though this still leaves significant areas of Northern Ireland without natural gas. Natural gas prices are higher in Northern Ireland than in GB due to additional transportation/transmission costs, and there is also a lack of sophistication in the purchase options available eg future market hedging is not available.
- 5 At present there is little doubt that rising global energy costs (including shipping costs) are having a major impact on prices – oil, gas and coal prices are significantly ahead of 12 months ago:

- Oil – faced with ‘peak oil’ within the next decade combined with rising demand in the developing economies, and the self-interest of major supplying countries there are significant upside risks for oil prices ahead
  - Gas – prices are tracking oil prices. The UK market faces a shift from self-sufficiency to one of a significant dependence on imports in the years ahead. Increased pipeline capacity and new LNG installations should help but again the outlook here is one of a significant risk of prices remaining high. Prices have risen sharply in recent months. The island of Ireland is increasingly dependent on natural gas imports
  - Coal – very substantial resources globally – but high demand, supply constraints and high shipping costs have driven prices up. The costs of carbon (and with carbon capture and storage at least a decade away) will also have an increasing impact on coal’s competitive position in electricity generation
- 6 In January 2008 the price of carbon jumped to over 20 euro/tonne which is bearing on industrial prices but it will take until next year for the domestic consumer to experience this impact. The price of carbon will become an increasingly important part of the energy equation in the future.
- 7 The new SEM market has also created a flatter price profile as capacity payments have been smeared across every half-hour unit – this will have increased night-time prices while peak prices should have dropped. This structural change will disadvantage significantly larger 24x7 electricity users.
- 8 We accept that international fuel prices are outside our control, albeit that we need assurances that SEM wholesale prices are cost-reflective in order to ensure future capacity requirements. We also have to accept Northern Ireland’s geographic position, and the fact that we are at the end of a gas pipeline. Recent complaints about bids not complying with the mandatory code of practice are of concern to CBI members and need to be urgently addressed (the first complaint has been judged fully compliant with the rules).
- 9 We need to focus on those issues and levers which are within our control. Some of these are within the control of the NI authorities (be it the Regulator or government) while others now fall within the SEM at an all island level (again both Regulators and possibly both governments may have responsibilities). There are also important and urgent decisions to be made on the longer term issues relating to the fuel mix of generation on the island, with ambitious CO2 reduction targets currently being established by the European Union in both jurisdictions. The business community will want to see these achieved in the lowest cost manner.
- 10 The competitiveness challenge is to ensure prices are not significantly out of line with our international competitors. Yet there is substantive evidence that NI electricity prices are extremely high on a global basis. The SEM is a very small market internationally and suffers from lack of scale in the size of generating plant, as well as in market size. On the island, prices in ROI appear to be higher than in NI. Evidence from a number of large users confirms that NI prices are higher than in GB and ahead of other major trading partners – indeed electricity prices are substantially ahead of several European,

Asian and north American economies. Table 1 highlights these international comparisons while Table 2 overleaf illustrates the typical price breakdown for a large High Voltage customer in Northern Ireland.

**Table 1 International Comparative Prices for Electricity**

Country	Typical price range (p/kWh) for Large Electricity user 2007/8
Northern Ireland	8.0- 8.5p
Great Britain	6.5-7.5p
Germany/Italy	5.5-8.0p
Spain/France	4.0-5.0p
Asia (Malaysia/Singapore)	3.0-4.0p
USA/Canada	2.5-3.0p

**Table 2 Indicative Price Breakdown (Typical Large HV Customer)**

Energy (SMP) + Supplier Margin	67.4%
Capacity	11.1%
Distribution (Use of System)	9.2%
PSO Levy	5.2% **
Imperfection Charges	2.6% *
Transmission (Use of System)	2.4%
SSS levy	1.6% ***
Market Operator Charges	0.4% *
<b>TOTAL</b>	<b>100.0%</b>

\*flat p/kWh charge – all customers in SEM \*\*flat p/kWh charge – per customer class in NI

\*\*\* flat p/kWh charge – all customers in NI

- 11 This paper attempts to split the key issues into those which are NI specific, those which fall more broadly within the SEM, and longer term issues.

## Northern Ireland specific issues

### Public Service Obligation (PSO) charges

We need to ensure these are minimised and re-sculpted as current allocations disproportionately favour the domestic consumer. These are largely ‘out of market costs’ which need to be recovered, but also include other ‘public service costs’ such as energy efficiency support to domestic customers. There should be much more transparency on these costs – a framework could be put in place to decide what may be commercially sensitive. They are exceptionally high (£53m this year) in Northern Ireland, though lower than last year. A significant reduction should occur by 2012 as various costs relating to electricity contracts drop out. Similar charges are not significant in either the GB market or ROI market (almost zero in both cases). Current PSO charges are allocated and approved by the Regulator and basically split into a cost per unit basis for different consumer groupings - these costs do not appear to be cost reflective. Large 24x7 flat load users are paying a

disproportionately high PSO charge say at night time when generation and T&D costs are low compared to a domestic user who creates a large peak in the early evening when costs and prices are at their highest. We understand the allocation assumed that the previous government proposals to reduce the costs of electricity to business (by £20m to £30m per year) would be successful – though this proposal was withdrawn by DETI in autumn 2006. The result:

**As a percentage of total electricity costs large industrial users pay PSO charges over 200% higher than the domestic consumer despite their more stable demand profile**

**Allocation of costs** – there is an urgent need to review how these costs are allocated. The Regulator has indicated he will review these charges during 2008 and will engage with CBI on the approach he intends to take on this issue. The CBI believes that a fairer means of allocation of many of these PSO charges should be on a p/KVA basis as they are directly related to capacity, or shared over peak periods which drive the costs. We need to seriously question why domestic users have been benefiting from a lower charge than any other customer category eg current 2008 PSO charges are as follows (available on Regulator’s website):

Domestic	0.308 p/kwh
SME	0.895p/kwh
MV	0.768p for under 1MW to 0.469p for over 1 Mw
HV	0.543 for under 1MW to 0.469 for over 1 Mw

**Companies want visibility on trends** re PSO charges including what goes into them - Licences set out the various elements. The PSO charges dropped from £88m in 2007/8 to £53m in year to Oct 2008 – partly as result of lower Kilroot FGD costs and the refund of an over-recovery that had been accumulated. As fuel costs go up there is a tendency for the PSO to fall as significant cost elements here are the ‘out of market’ costs associated with the Ballylumford buyout and Kilroot contract costs. As wholesale market prices increase these costs should fall, though there will be little impact if price increases only reflect fuel price movements.

**Recommendation:** On an annual basis the Regulator should set out exactly what costs go into making up the PSO charges and provide some indication of the expected costs over the next three years. He should publish the criteria for allocating the costs across customers, and consider allocation across customer groupings on a capacity basis. While we accept there is some difficulty in being precise we do believe the Regulator should be in a position to provide an ‘indicative banding’ over a forward three year period. The charges for the following calendar year need to be published no later than October in order to help customers prepare their budgets.

**Treatment of under-recovery of costs** - This point has particular implications for large energy users as given the high fuel prices plus currency movements, there is a possibility that NIE Energy (PPB) may be facing an under-recovery this year which they will be entitled to pass through in the PSO charge. While CBI accept they have every right to do so care needs to be taken on how such costs are allocated. It should be levied across their current customer base only and not to those supplied by second tier suppliers. Large energy users are supplied by independent energy suppliers and will already have chosen to hedge out their exposure and therefore should not be required to pay for those customers who have not. Large users are already paying a carbon cost during 2008 so should not have to pay twice.

## **System Security Services Charges**

With the SEM these have reduced from £25m to £16m but are offset by new Market Operator charges of £25m (from the Regulator's presentation to the CBI Energy Forum on 13 February 2008) though this appears to include a significant amount of costs which were previously classed as SSS charges - SEM documents suggested it should be €23m levied across all customers in SEM.

Customers are keen to know that the trends are here and how these can be reduced. These costs are applied to every unit sold at 0.139p/kWh across all customer groupings. With these charges there is a lack of information in regard to the individual costs making them up and the reasoning behind how the allocation across customer groupings has been established. In both cases the charges are penal to large energy users particularly those with good load factors. A key issue here is whether there is an argument that these should be more cost reflective?

**Recommendation:** The Regulator should set out clearly the make-up of these costs and provide some indication of the expected costs over the next three years, and the criteria for allocation. CBI members believe the Regulator should review of fairness of the allocation of these charges.

## **Use of System Costs (of transmission and distribution)**

These are regulated charges reflecting the monopoly situation which applies. The costs increased by 6% to £167m in 2007/8 – largely as a result of increasing investment. These are now capped under the 2007-2012 price agreement between the Regulator and NIE, are in line with an average of three most comparable distribution networks in GB. ROI costs are probably rising faster here as they have significantly more investment to do than NI and they have not achieved the efficiencies delivered since privatisation (core T&D charges have fallen 40% in real terms). There is little scope for change here, but there is a real risk that future costs could increase if future investment in transmission/distribution network had to be to underground cables – see below (arguably a NI issue as separate T&D costs will continue to apply in both jurisdictions). This is potentially a very significant issue.

The revised arrangements for transmission charges introduced as part of the SEM (e.g. whereby transmission use of system charges are charged to generators depending on their location but charged to suppliers on a postalised basis), may merit review to check that customers in NI are not paying more than their fair share of the all-island transmission costs. We note that the Regulator's Forward Work Programme indicates that the question of the application of the remaining balance of the capital rebate which Moyle received in respect of connection charges in Scotland will be considered in this year's tariff review.

## **Reference tariffs for large users**

Some large 33kv users have concerns that there is no benchmark tariff against which to reference other market bids. Some members have also found it difficult finding information on current SEM pool prices – we understand that it is possible to access yesterday's pool prices, while the Market Operator also publishes daily predictive prices for the next day (these tend to be a reasonable reflection on outturn prices). However there is so much data available that it is difficult for consumers to access relevant information.

The lack of a forward market is also seen as an unfavourable position, but hopefully this will develop over time.

**Recommendation:** The Regulator should ensure such a benchmark 33kv tariff is available, and ensure there is easy access to relevant market information.

### **Other issues which may/may not be within our control**

**Renewable Obligation** – is this the most cost effective mechanism to encourage more renewable capacity on to the system? This is a small cost at present but is expected to rise substantially in future years. This is a government responsibility.

**Climate Change Levy on natural gas** – we are in a second period of CCL derogation which has EU agreement – this runs out in 2011. With Northern Ireland continuing to face high energy prices we believe that government should be seeking to secure a further derogation.

**Other gas issues** – as a general comment many of our members raise concerns about the lack of competition/choice of suppliers even in the established Greater Belfast market. What are the key barriers to market entry? Are there any regulatory issues which could be addressed to encourage more competition? CBI Northern Ireland welcomes the publication of the recent consultation paper on Electricity and Gas Retail Market Competition by the Utility Regulator which discusses these issues in more detail.

## **Single Electricity Market (SEM) issues**

### **Ensuring the market is working**

There is a clear need to monitor the SEM to ensure it is working and the right price signals exist to encourage appropriate investment. Already two significant complaints have been raised by a number of generators – but they are taking some months to resolve (a draft decision on one of these had been made in early March, and the issue has subsequently been judged compliant). Generators, suppliers and customers **need to have confidence that the new SEM market is working** and operating within the rules. The bidding codes of practice which were agreed with all market participants should be rigorously policed and applied. If the market works it should drive inefficiencies out by encouraging investment in modern efficient generating plant and greater competition. The Regulators need to demonstrate that the Bidding Code is being rigorously enforced, otherwise its validity as a tool for mitigation of market power abuse will be in question.

### **Lack of competition**

From a customer perspective there is ongoing concern about the lack of effective competition, particularly from larger customers. In some cases larger energy users have in practice only one supplier. Evidence from suppliers does indicate that there is some customer switching in small/medium users. The low supply margins may be inhibiting competition with larger customers. It also appears that suppliers can provide capacity only up to the limits of their generation capacity – there does not appear to be a secondary hedging market developing which appears to be a major constraint on encouraging more competition.

### **Moyle interconnector**

The load factor in the first four months of the SEM is around 45% though lower overnight and at week-ends – it also has varied significantly week by week. Customers have questioned why the interconnector is not being more fully utilised (total capacity on this is now 450MW), although it would probably be unrealistic to expect this to exceed 60-65%. The fact that this key infrastructure is not being more highly utilised when there are apparent final price differentials with the GB market suggests that the market may not be fully working – however on investigation the wholesale price differential may not be significant.

The price difference would clearly need to cover transportation costs, losses and risks. The GB wholesale price combined with transportation costs (which may be as much as 0.25p/kWh) are fed into the SEM pool – on top of that are the Capacity charges, PSO Levy and Imperfection Charges which add a further 19% increase in costs, hence the ongoing final price differential with GB. In the early months of SEM capacity was not all sold and what was sold was not fully used, though we understand that this is improving now as price arbitrage increases.

Market participants demand appears to be satisfied as all requests or bids for capacity have been taken up to the level of capacity available. However not all capacity is actually used. We understand that the Regulator has ‘step-in’ procedures if the market is not working properly – these may need to be reviewed. There are some other technical issues which are worth further investigation:

- National grid TNUoS charges are high (UK practice is to charge for interconnectors while several other European countries do not) and should be reviewed – at these peaks users will avoid importing power
- the ‘ex post’ element of the capacity charge (which is uncertain and highly variable) creates additional risk
- gate house closure times are different – in GB it is 1 hour ahead while in SEM it is 24 hours ahead. This creates additional volume and price risk especially in winter periods and hence results in more conservative behaviour
- interconnector users’ attitude to trading risk

**Recommendation:** We would welcome the Regulator undertaking some modelling to assess the impact of the interconnector being used at higher capacity, and in light of the findings determine whether the auction process/pricing structures are working in consumers’ best interests and whether other technical issues can be addressed.

### **Imperfection charges**

The new SEM system marginal price, (pool price) is set based on an unconstrained market. Obviously generation and network constraints will effect how generation is scheduled and how the transmission and distribution network is configured. The additional costs incurred as a result of both generation and network constraints is recovered across the market as ‘imperfection charges’. There is little transparency around these. Issues – how do these compare with other energy markets? How can these be reduced/minimised over time?

These are a significant cost to the SEM and are shared across both jurisdictions and set out on a ex-ante basis on each unit of electricity (no variation with time). Imperfection charges for the first year

of the SEM have been set at euro 112m, equating to around £20-25m in costs for NI customers – these are ‘hidden’ in the wholesale price. There are risks that these charges could encourage inefficient behaviour – eg example of 800MW plant being proposed for Cork region but capacity constraints may limit usage to half this – could end up with the rest of the unit being charged as an ‘market imperfection charge’ – we need clarity on what criteria are being used here and assurances that no unnecessary costs are being included. Consideration needs to be given by both Regulators to ensuring that appropriate incentives are in place to minimise these costs. We understand that the completion of the second north-south interconnector will alleviate certain network constraints and will go some way towards reducing these costs, but by how much and when?

Given that most generation and network constraints are influenced by the changing load requirements on the system at different times of the day it would appear that large, good load factor customers are being penalised for constraints which they do not really cause. Surely the imperfections charge should be set at a lower level for large industrial customers with flat loads. This raises the question of how this could be done as they form part of the wholesale price?

**Recommendation** – greater transparency should be provided on these costs and how they are expected to develop. The Regulators must ensure that these costs are no higher than essential, and should assess whether these costs can be allocated in a more cost reflective manner.

### **Costs of the very high peak**

The Regulator has indicated that the late afternoon peak is higher than envisaged, albeit that it is a relatively small cost compared with the other issues raised in this paper.

- What is the cost of this peak to customers over estimated levels?
- What options to reduce peak to more manageable/realistic levels
- What incentives for demand management?

This is combined with very high interconnector charges at the peak (set by National Grid which apply a triad based TNUoS charge which is many times the wholesale price to cover the risk of TNUoS charge hitting).

### **SEM Market Operator costs**

The current annual cost to NI customers is around £25m. Customers are keen to know how these will develop over time. We understand there were considerable up front costs, including IT systems etc in establishing the new market. There should also be some clear key performance indicators (KPIs) for the Market Operator.

**Recommendation:** Regulators should provide transparency on these costs and provide some indication of the expected costs over the next three years.

### **Building Transparency and Understanding**

The energy market is very complex and keeping on top of these issues is extremely difficult. Several years ago the Regulator organised a Market Forum (the ‘IME Group’) on the back of the opening up of the electricity markets involving all the key stakeholders.

**Recommendation:** We believe there is a strong argument for such a Forum to be re-established on an all-island basis. This would help to enhance transparency and understanding by all stakeholders, and provide a forum (perhaps twice a year) for key issues to be raised and debated.

## **Longer term issues/challenges**

**Further interconnection** – there is strong desire to see more integration with the larger GB market and access to their economies of scale. A second Dublin-Wales interconnector is planned and is likely to come into operation by c 2012. However with significant interest in building new CCGT capacity on the island combined with major investment in onshore wind generation the import demands may be limited, especially as the costs of transmission are likely to be considerably higher than the Moyle (copper costs are four times higher than when Moyle was built and the interconnector is twice as long). However it is a good point for exports into the GB grid. There are also emerging views that the island of Ireland should be more deeply interconnected with France – the merits and costs of such interconnection are worthy of further investigation.

**Undergrounding of transmission lines** – serious public opposition, especially in ROI, to overhead power lines. If it becomes necessary to underground future investment in transmission lines the costs of the investment can increase between a factor of three and a factor of nine. The Irish Energy Minister has initiated a study to assess the additional costs. This could be a major issue in the future as to meet the 6000MW of wind capacity (see below) will require an estimated £1.2bn investment (£1.0bn in ROI and £200m in NI) assuming built as overhead lines and some three to nine times the cost if underground! Any such costs are likely to be paid for by all consumers, including the domestic sector (where the T&D costs are disproportionately higher)

### **Moving to a lower carbon generating mix**

There is emerging acceptance that wind power is likely to be the most economically attractive option which can provide a significant source of renewable energy over the next 20 years on the island of Ireland. There is significant potential for biomass, notably energy from waste including both animal waste and domestic waste (unsure what quantities, but considered small relative to wind potential which could deliver as much as 6000 MW on shore by 2025 – some 3000MW of wind is likely to be in place by c2012).

Key issues here:

- To achieve 6000MW of wind will require substantial investment in the transmission network, largely in the west of the island
- Wind is likely to need to be subsidised unless fossil fuel costs continue to escalate and the price of carbon rises – the key issue is what is most cost effective way of achieving an increase in wind capacity on the system
- Governments will face EU penalties if they fail to achieve CO2 reductions – it might be feasible to argue for some exchequer support as regional development aid for strengthening the transmission network – most of the wind is in the west of the island where the network is weakest. We may find ROI government more amenable to this than NI government. EU state aid rules may come into play here too
- The Northern Ireland transmission system will not be able to cope with significant additional wind capacity unless it is reinforced - decisions on this need to be taken with some urgency

**Indicative targets for reducing carbon and for renewable energy by 2020** have been set out recently by the EU for both Ireland and the UK albeit that it may be 12 months before these are finally agreed.

- UK: reduce CO2 by 16% and renewables to form 15% of total energy – this relates into 45% of electricity generation
- Ireland: reduce CO2 by 20% and renewables to form 16% of total energy - relates into a 45-50% of electricity generation

The existing technologies for taking us there are well established (other technologies including carbon capture and storage, wave power etc) are unlikely to come into play until after 2025. It is now essential that we start planning for the future and ensuring we achieve the necessary reductions in carbon in the lowest cost manner possible. **A plan of action needs to be developed with some urgency:**

- We need to build on recent all-island Grid Study
- We need to fully understand scope and costs/benefits of wind, taking into account the need for backup generation, which becomes a bigger issue as wind capacity increases, though can be offset by higher levels of interconnection. When wind capacity is available it can currently reduce wholesale prices by c10%. We will want to develop wind at lowest possible cost.
- There is clearly a desire for more interconnection. A new Ireland-French interconnector has been suggested though the costs might be excessive– a high level feasibility study will need to be undertaken to assess the financial and technical feasibility of such interconnection.
- In the short-term we need to undertake some scenario planning looking at various fuel price scenarios. If fuel prices continue to rise the island might find itself well positioned with its wind resource and other renewable technologies
- We must also ensure that planning policies are put in place which will facilitate and encourage the necessary investment in renewable energy ie draft planning policies seek to restrict wind turbine height to less than 80 metres (which is regrettably)

**Nuclear** – the CBI firmly believes nuclear has a role to play in the UK, albeit that the price needs to be competitive. In theory the island is already accessing nuclear power through the Moyle interconnector. However is there merit in considering the role of nuclear on the island – CBI members do not wish to rule this out. However:

- The size of the SEM may make it much less economically attractive to develop a nuclear power station on the island – most new power generating sets are around 400MW max – developing a smaller nuclear set may be uneconomical or having a large set could require additional system back up costs
- Politically unacceptable to many – the Irish Minister has invited his Dail Committee to assess the merits of nuclear
- There are no previous nuclear sites on the island – securing an appropriate site could be difficult – planning wise and because of public reaction. In GB all the likely new nuclear power sites will be on existing nuclear sites.

The NI government has committed to moving to carbon neutral estate by 2015 – the implications of this need to be assessed and monitored – a significant customer moving away from fossil fuel will mean the fixed costs eg contracts etc may have to be allocated to a smaller customer base (the closure of the Seagate Limavady facility has had such an impact on water charges for other consumers). Cancellation of contracts (where appropriate) would help to minimise this burden and we note the Regulator’s Forward Work Programme includes an item relating to preserving the powers to cancel contracts. If extra cost is involved in achieving ‘carbon neutral’ status there is a need to ensure this is undertaken at ‘best value for money’.

There is a need for clarity on policy objectives – if the desire is to reduce the carbon footprint we need to set targets to achieve the objectives in the most economically advantageous manner – this will include saving energy/ better management of energy which may be even more cost effective than supporting renewable. **A more strategic and co-ordinated approach to renewable energy, including energy from waste, should also be adopted with some urgency.**

### **Energy Efficiency**

Finally there is little doubt that energy efficiency is a key part of the answer contributing to reducing costs but also to reducing our carbon footprint. Large energy users will have already focused a great deal of attention and resources in energy efficiency. And many argue that they have been penalised for it – they invested heavily in energy efficiency in the 1990s before sectoral agreements under the CCL regime were introduced. Evidence from the Carbon Trust suggests that within the UK, NI companies are putting energy efficiency higher up their agendas. A recent IBEC/CBI Joint Business Council survey (sponsored by Sustainable Energy Ireland and Action Renewables) found that 64% of companies across the island of Ireland consider reducing carbon emissions or improving energy efficiency a high or medium priority. But is there more support/incentives which could be introduced, as in many cases paybacks remain too long and projects are competing with other investments. Good support is available from the Carbon Trust for small companies. However there is insufficient support available (in grants or low cost loans) for larger investments of say over £500,000, where payback periods frequently exceed three years.

More generally, while technical surveys indicate there appears to be worthwhile projects with attractive paybacks the reality is that limited investment is proceeding. There appear to be a number of reasons for this:

- Lack of expertise/know-how in companies and stretched management resource
- Companies facing a range of investment options
- Working capital issues
- Companies uncertain about future prospects
- Lack of project management resource and expertise ie for application, tendering and managing the contract
- Lack of confidence in the market (and new technologies on offer)

An initiative is required which will focus on bringing these projects to fruition, by bridging the gap which currently exists between identifying the potential savings and completing the ‘due diligence and project implementation’ aspects.