Committee for the Economy's Call for Evidence on the Renewable Electricity Generation Bill

Version 1.0

mutualenergy

A Northern Ireland company
working for consumers

1 Background to Mutual Energy

As a mutual company, Mutual Energy has no shareholders, and our corporate purpose is to own and operate energy infrastructure in the long-term interest of Northern Ireland energy consumers. This includes the 500MW HVDC Moyle Electricity Interconnector and the Scotland to Northern Ireland Pipeline for gas, as well as sections of the onshore NI gas transmission network (the Belfast Gas Transmission Pipeline and the West Transmission Pipeline).

MEL is also part of a joint venture with GNI (UK) (the other gas Transmission System Operator ("TSO") in NI) that provides a market operator function - the Gas Market Operator for Northern Ireland ("GMO NI"). The GMO NI facilitates the efficient transportation of gas across the NI gas network.

2 Introduction

Mutual Energy welcomes the opportunity to respond to the Committee for the Economy's call for evidence on the Renewable Electricity Generation Bill. Our response reflects our role as a mutual business that owns and operates strategic energy infrastructure in the long-term interests of Northern Irish energy consumers.

The Bill provides the enabling framework for a two-way Contract for Difference (CfD) scheme. This response addresses the proposed powers and suggests areas for further consideration when developing subsequent regulations, allocation arrangements and contract terms. Where no amendment to legal drafting is proposed, our recommendations relate to the implementation of the scheme through the later regulations and arrangements.

3 Executive summary

MEL supports the Bill and its facilitation of a two-way CfD scheme, subject to its appropriate implementation and adequate protections for consumers.

While recognising the urgency of the 2030 renewable electricity target, we believe the type of renewable technologies, level and timing of procurement should be carefully coordinated with security of supply, network development, interconnection, storage and other system flexibility solutions. It is particularly important that procurement is carefully coordinated with the development of energy storage and other flexibility solutions, which can help make better use of installed renewables, while reducing reliance on gas and, in the future, potentially hydrogen generation, which could prove expensive, for security of supply. This should help minimise the overall cost of delivering a secure energy transition for NI consumers.

We make the following observations, which may be helpful to further consider as the detailed terms and conditions for the scheme are being developed:

- Provision of an indicative forward roadmap, which could include information regarding the main objectives for each procurement round.
- Ensuring objectives for each procurement round reflect the current growth rate in electricity demand, system readiness, and adequately anticipate consumer impact.
- Eligibility criteria and penalties (non-delivery measures) may need to carefully balance delivery risk with ensuring sufficient competition in auctions.
- Rate of growth in renewable installation may need to be balanced with storage investment, and wider system flexibility measures, to deliver optimal outcomes for consumers.
- Clear responsibilities and proportionate, accessible monitoring could help accelerate the smooth implementation of the scheme, while pragmatic community benefit arrangements can help build and maintain ongoing public support.
- Regulations and contractual terms should be consulted upon to ensure they work for developers / investors, suppliers, other administrative bodies and consumers.

4 General observations

We recommend that the development of the detailed terms and conditions of the scheme, including auction design, builds upon experience from GB CfD and Republic of Ireland (RoI) RESS arrangements, while reflecting the unique characteristics and needs of the Northern Irish electricity system.

The Utility Regulator's 2026 Flexibility Needs Assessment highlights network constraints and growing flexibility requirements as renewable generation increases. It identifies network reinforcement and deployment of storage and other flexibility solutions as important to making good use of renewable electricity and reducing curtailment. We suggest it would seem prudent that the CfD procurement decisions are informed by this assessment, appropriately coordinating renewable deployment with developments in system flexibility, security of supply and wider system needs. In our view increasing renewable generation is not sufficient to remove the need for dispatchable generation to maintain security of supply. As electrification increases peak electricity demand, in the absence of energy storage, or other forms of flexibility, like interconnection, more thermal capacity will be needed to maintain electricity system security, but it will be used less frequently across the course of a year, increasing overall system costs for consumers. Coordinating renewable procurement with storage, and other system flexibility solutions, however, can help mitigate this issue by delivering a more efficient means of maintaining security of supply, helping to deliver a more cost-effective transition for consumers.

5 Conclusions

MEL supports the Bill and welcomes progress towards a two-way CfD scheme for Northern Ireland. We believe that the Bill provides the necessary powers required to implement the REPG scheme but suggest that it is important that there is appropriate scrutiny, via consultation, on the development of the required detailed regulations.

We observe that the main measure of success of the REPG will be whether it delivers efficient investment in renewables at a reasonable cost to consumers to support energy decarbonisation in Northern Ireland. We therefore encourage coordination of renewable investment with provision of adequate energy storage, as well as other system flexibility measures.

6 Responses to the Committee questions

Clause 1 Overview of this Act

Q6 Do you agree that Contracts for Difference should be the basis for encouraging renewable electricity generation?

Yes. MEL supports a two-way CfD as the basis for encouraging renewable electricity generation. It can provide greater revenue certainty for investors while protecting consumers through repayments from generators when the market reference price exceeds the strike price. Under a two-way arrangement, support flows to the generator when the reference price is below the strike price and value flows back to consumers when it is above. This is preferable to a one-way subsidy, although the benefit to consumers will depend on factors including the strike prices of contracts, overall scheme implementation and running costs and how payments/rebates are passed through to bills.

Q7 Do you agree that the generating contracts should be managed using a counterparty? If yes, who should the counterparty be?

Yes. A designated counterparty is a reasonable way to manage the contracts and two-way payments. MEL is content in principle with the proposed use of the Low Carbon Contracts Company, subject to appropriate governance arrangements tailored to the specific needs of Northern Ireland and the SEM, as well as adequate accountability and provisions for ensuring continuity of the operation of the scheme.

DfE's scheme design assigns LCCC responsibility for contract management, settlement and the administration of two-way payments, subject to it having the necessary legal capacity and funding. The regulations should make clear how appropriate arrangements for Northern Ireland regarding accountability, data handling, operational continuity and engagement with DfE, SONI and the Utility Regulator will be put in place and work in practice.

Q8 Do you agree that the costs of the counterparty should be met by a supplier levy?

Yes. A supplier levy is a reasonable funding mechanism. The levy should be clear and designed to avoid excessive volatility for consumers, and so payments received from generators are passed back to consumers in a timely and efficient manner. The published design already anticipates an interim levy rate, an operational cost rate, reserve payments, collateral and an annual reconciliation. These mechanisms appear reasonable in principle, but suppliers and consumers should be able to see how the levy was calculated and how any over or under recovery is managed. It is important that the detailed regulations avoid unnecessary volatility, especially in relation to increases in levy costs for consumers.

Q9 Do you have any further amendments that you would like to propose to this clause?

No further amendment proposed. Clause 1 establishes the basic structure only. The more important consumer and governance protections come under the later clauses and the regulations made under them. We do however, make some general observations and suggestions in the executive summary to this response that may be helpful regarding consideration of the regulations that govern the use of the powers granted in the Bill.

Clause 2 Contracts for Difference

Q10 Do you agree that the Department should be able to make regulations in respect of the key terms and payments of the Contracts for Difference?

Yes. The main commercial terms and payment arrangements should be set through regulations and developed through consultation. Contract duration should be carefully considered and appropriately balance investment certainty and the need to minimise financing costs, against the extent of post contract upside for investors; after the support contract term ends investors will retain all energy market revenues. Assuming renewable generators are likely to want to make a return on their investment during the support contract term, a 15-year contract could leave 5 to 10 years of upside for the investor, subject to the technology.

As part of the development of the detailed terms and conditions for the scheme it would seem prudent to further assess whether a 15-year contract term strikes an appropriate balance of risk and reward between investors and consumers.

Q11 Do you have any further amendments that you would like to propose to this clause?

No specific amendment proposed. The later regulations and contractual terms should set out clearly how the reference price, negative pricing, compensation for dispatch down, metering and settlement will operate. These detailed matters should be consulted upon as important parts of the wider terms and conditions of the scheme.

MEL further suggests that compensation for the dispatch down of renewables under the scheme should be accompanied by a credible plan for network development, storage and other flexibility to facilitate more efficient use of the renewable capacity installed under the REPG scheme (which would reduce the overall renewable capacity required to be procured to meet targets), as well as to minimise the cost of compensation payments for Northern Irish consumers.

Clause 3 Eligible generators and generating stations

Q12 Do you agree that the Department should be able to make regulations in respect of the definition of eligible electricity generating activities?

Yes. Eligibility should be set through regulations, so it can be refined from experience gained from ongoing operation of the scheme, the available renewable project pipeline, as well as in line with any specific policy requirements that may need to be met via upcoming allocation rounds. It is important, however, that overall, a clear and predictable framework for investors is maintained as much as possible.

Q13 Do you have any further amendments that you would like to propose to this clause?

No specific amendment proposed. We believe that projects should be able to show a credible prospect of delivery through planning, land, grid connection and finance. Prequalification and non-delivery penalties can help reduce delivery risk, but care should be taken to ensure they are not excessive, which could cause issues in relation to insufficient competition in auctions. MEL supports a material minimum project size to support economies of scale and to incentivise delivery of projects at a scale commensurate with the ambition of NI decarbonisation targets. The requirements set by the scheme however, should consider how smaller size projects may contribute to the wider renewable electricity objectives outside the main scheme, particularly if separate support is put in place for these – e.g. community based renewable electricity schemes.

Clause 4 Counterparty

Q14 Do you agree that the Department should be able to make regulations in respect of the designation of a counterparty?

Yes. Designation of a counterparty is necessary to ensure that a legally constituted body is responsible for offering and managing the contracts and settling payments.

Q15 Do you have any further amendments that you would like to propose to this clause?

No specific amendment proposed. The regulations should provide clear governance, accountability and provisions for continuity of the scheme if the designated counterparty is changed or withdraws, building on the continuity and transfer provisions in Schedule 1.

Clause 5 Allocation rounds

Q16 Do you agree that the Department should be able to make an allocation round for Contracts for Difference from time to time and at its discretion?

Yes. MEL supports regular and predictable allocation rounds, with discretion for the Department to respond to the pipeline of deliverable projects and wider system needs. The timing and volumes of procurement should support adequate competition and value for money for NI consumers.

A forward auction programme would help developers plan, while retaining flexibility to avoid delivery pressures leading to distressed procurement or increased delivery risk.

As outlined in our executive summary and general observations, renewable procurement also needs to be balanced with the delivery of storage and wider flexibility solutions, drawing on the UR's Flexibility Needs Assessment. Coordinating these developments would help ensure supported generation can be used efficiently and maximise value for NI consumers.

Q17 Do you agree that the Department should be obliged to publish related notices, issue terms and publish rules and thus make an allocation scheme, at its discretion?

Yes. The notices, terms, rules and decision criteria should be published clearly and sufficiently in advance. Publication gives all potential bidders access to the same information and allows the outcome to be checked against the announced rules. Any changes should be published promptly, with clear explanations as to why they are needed. A review of other regions' auctions where issues have arisen may be helpful. We also suggest that a set of frequently asked questions for the NI scheme may be useful for participants.

Q18 Do you agree that the Department should make regulations in respect of how generators are to apply and how applications are to be adjudged as successful?

Yes. The application, assessment, and delivery requirements should be transparent and proportionate. We believe the detailed regulations are the appropriate place to establish a consistent application process, the evidence required from bidders and the treatment of incomplete or unsuccessful applications. As is typical in such schemes we suggest that the process should include a clear and time-limited review or appeal route.

Q19 Do you have any further amendments that you would like to propose to this clause?

No specific amendment proposed. As previously mentioned, we believe maintaining and publishing an indicative forward roadmap for auctions would be helpful for investors, recognising that procurement volumes and timing may need to respond to changing circumstances over time. We believe explaining any material change to a planned round would be important to help maintain market confidence.

Clause 6 Allocation scheme

Q20 Do you agree that the NI electricity grid system operator should determine the outcome of a Contracts for Difference allocation round?

Yes. The system operator is the logical body to determine the outcome under rules set by DfE, subject to transparent procedures and correct oversight. The final scheme design already has SONI assessing eligibility and running the allocation process, with the UR providing audit, monitoring and a dispute mechanism. That separation should be reflected clearly in the regulations.

Q21 Do you agree that the allocation scheme devised by the Department and at its discretion should specify the strike price, the setting of targets including how electricity is to be generated?

Yes. The auction should select the lowest-cost qualifying bids. The key policy decision is what DfE requires the auction to procure, how much needs to be procured, and when it needs to be delivered by. Those decisions should be supported by evidence on security of supply, demand forecasts and electrification, network readiness, interconnection, storage and other flexibility requirements, as well as consumer impacts.

We agree with clause 6 allowing targets to distinguish between technology, capacity and location. We also see potential benefit in aligning the timing and mix of procurement with the delivery of storage and other wider system flexibility solutions, drawing on the UR's Flexibility Needs Assessment, as well as generation adequacy assessments, and other network planning evidence.

Q22 Do you have any further amendments that you would like to propose to this clause?

No specific amendment proposed. We believe it would be helpful for the allocation scheme to clearly define the detailed responsibilities of DfE, the system operator, the counterparty and the Utility Regulator under the scheme.

Clauses 7 to 9 Contract modifications notifications and offers

Q23 Do you agree that the counterparty and the generator should be able to amend the terms of the Contract for Difference contract in the circumstances specified?

Yes. This should remain limited to terms identified as capable of modification and to changes that are minor and necessary. Clause 7 provides for modifications to designated standard terms for generators applying, or proposing to apply, for a CfD. This flexibility should however preserve fair competition, and it is important that modification do not undermine the integrity of the allocation process.

Q24 Do you agree that the Department should have the power to make regulations to specify how and when the terms of the Contract for Difference contract may be modified?

Yes. Regulations can provide a transparent process for allowed modifications, including who may request a change, the evidence required and the applicable timing. This is preferable to dealing with changes on an ad hoc basis. We would welcome that the regulations make the scope and assessment of allowed modifications clear before bidding. Uncertainty about potential changes could lead bidders to include a risk premium, increasing costs for consumers. A balance would allow necessary minor adjustments while maintaining confidence in the auction process and the published terms of contracts.

Q25 Do you have any further amendments that you would like to propose to this clause?

No further amendment proposed.

Q26 Do you agree that Contracts for Difference allocations should be sent to the counterparty?

Yes. The notification is the formal link between SONI's allocation decision and the counterparty's obligation to offer a contract.

Q27 Do you agree with the proposed content of the notification?

Yes. The Bill requires the notification to identify the generator and strike price and allows the necessary supporting information to be specified.

Q28 Do you agree that the Department should be able to, through regulations, vary the content and circumstances of issuing for notifications?

Yes, in principle. Our support for this, however, is restricted to less material matters such as administrative information, notification circumstances as the scheme develops. However, changes that are more material should be consulted upon and should not allow an allocation outcome to be reopened without good reason or guardrails that ensure fairness.

Q29 Do you have any further amendments that you would like to propose to this clause?

No further amendment proposed.

Q30 Do you agree that the counterparty should be required to offer to contract with a relevant electricity generator subject to the terms of the notification?

Yes. A successful allocation should lead to a corresponding contract offer on the notified terms to protect the integrity of the auction process and its result.

Q31 Do you agree that the Department should be able to, through regulations, in respect of how the counterparty is to apply or complete the standard terms and in respect of timelines and failure to complete?

Yes. Rules are needed for completing the standard terms, the period for acceptance and the consequences of a failure to complete to ensure a level playing field for all participants. Applying the same rules to all successful bidders supports fairness and timely delivery.

Q32 Do you have any further amendments that you would like to propose to this clause?

No further amendment proposed. As these are operational matters we believe they are better set out in regulations than fixed in primary legislation.

Clauses 10 to 12 Supplier levy and payments

Q33 Do you agree that the Department should be able to make regulations to require electricity suppliers to pay a levy to the counterparty to cover the counterparty's costs of making payments to electricity generators under Contracts for Difference including covering losses as a result of insolvency or supplier default?

Yes. The levy may reasonably cover CfD payments, counterparty costs, reserves and appropriate protection against supplier default. We believe it is important for forecasts to use realistic assumptions on the rate of electrification and demand growth. DfE's final scheme design envisages a fixed rate per MWh for each payment period, an operational cost rate, reserve payments, collateral, loss sharing and an annual reconciliation process. MEL supports these enabling powers, but suggests it is important that collateral, reserves and other credit protections are sufficient to protect the counterparty against non-payment but remain proportionate to the risks. Excessive requirements could negatively impact suppliers, increase financing costs, and result in increased costs for consumers.

Q34 Do you agree that the Department should be able to, through regulations, allow for the exemption of certain electricity supplies from the levy?

Yes. This supports the enabling power rather than a proposal for any particular exemption. Any exemption should have a clear policy basis, deliver its intended benefit and avoid shifting costs unfairly to other consumers. We would welcome consultation by DfE could on any proposed exemptions, to set out the rationale including who benefits, why the exemption is required, its expected cost, how that cost is redistributed, and whether it could negatively impact competition or trade within the SEM.

Q35 Do you have any further amendments that you would like to propose to this clause?

No specific amendment proposed. We would welcome publication of the expected consumer benefit before each round with the main assumptions behind it explained. These could include wholesale prices, inflation, demand, project delivery and electricity output. This should include robust assumptions that reflect the current rate of electrification and explain the uncertainty around the estimates. We believe it would be helpful if reporting after a round could show payments made to and received from generators, scheme administration costs and the resulting consumer impact.

Q36 Do you agree with the provisions of this clause?

Yes. We believe that detailed settlement, reconciliation and collateral arrangements should remain proportionate and should not create unnecessary barriers for suppliers, weaken retail competition, or impose unnecessary costs on consumers. These operational matters, however, are better addressed through subsequent regulations and terms and conditions.

The final design proposes annual reconciliation, with overpayments returned to suppliers and reflected in the next consumer billing period. We recommend that the regulations should therefore set a clear timetable for the reconciliation of funding imbalances, make the calculation auditable and avoid unnecessary cash-flow pressure, particularly for smaller suppliers.

Q37 Do you agree with the provisions of this clause?

Yes. We recommend that regulations should ensure that the payments received from generators, or surplus funds held by the counterparty, are used suitably promptly to help maximise benefits to consumers. We also suggest that pass-through is traceable so that suppliers and consumers can see when money was received, how it was allocated and when it reduced charges.

Clause 13 Community benefit

Q38 Do you agree with the provisions of this clause?

Yes, we agree that community benefit should be part of the clause. In our view community benefit should be practical to implement, with administration that is proportionate, accessible and cost-effective.

Ireland's RESS uses community benefit funds, providing a useful example of how community benefit arrangements can be structured. DfE's final design indicates that discounted electricity bills for households near supported projects are being considered. We believe the Bill should remain broad enough to permit different potential approaches to achieving these or similar aims. Baking in a degree of flexibility may help minimise operational overhead and administrative costs. We recommend that the approach to implementing community benefit is discussed with communities and properly consulted upon and that also potential impacts on suppliers, or other relevant administration bodies are assessed and adequately considered.

Clauses 14 to 17 Finance information and oversight

Q39 Do you agree with the provisions of this clause?

Yes. The regulations should ensure that the counterparty can meet its liabilities and that any shortfall or surplus is handled transparently.

Q40 Do you agree with the provisions of this clause?

Yes. Information requirements should be necessary and proportionate, avoid duplication and protect commercially sensitive information. MEL does not consider it necessary to expand the statutory list of information providers at this stage.

Q41 Do you agree with the provisions of this clause?

Yes. We believe the allocation, monitoring and review responsibilities should be clearly defined in the regulations. It is also important to ensure monitoring and review arrangements provide appropriate independence from the allocation function. We agree that the UR are probably best placed to act as an independent auction monitor, completing audits and handling disputes. We believe that it is important that the scope of these functions is defined before the first round, and that there is a high degree of transparency regarding the outcome of monitoring and review activities to build and maintain confidence in the scheme and its ongoing operation.

Q42 Do you agree with the provisions of this clause?

Yes. No specific amendment proposed.

Clause 18 Making of regulations

Q43 Do you agree with the provisions of this clause?

Yes. MEL supports the consultation and Assembly scrutiny provisions set out in clause 18. As much of the detailed scheme will be developed through subsequent regulations, consultation on those proposals will be important to allow stakeholders to understand their practical implications, particularly for consumers and the wider Northern Ireland energy system.

Clause 19 and Schedule 2 Consequential provisions

Q44. Do you agree with the provisions of this clause and Schedule?

Yes. The Explanatory and Financial Memorandum states that the repealed Energy Act 2013 CfD provisions have not been implemented in Northern Ireland and are being replaced by the new framework.

Clause 20

Q45. Do you agree with the provisions of this clause?

Yes. No Additional comments.

Clause 21 provides for the provisions of the Bill to be commenced after Royal Assent.

Q46. Do you agree with the provisions of this clause?

Yes. No additional comments,

Schedule 1 Designation of another counterparty

Q47. Do you agree with the provisions of this Schedule?

Yes. The stability and transfer provisions are sensible and should help protect existing contracts if the designated counterparty changes. Any transfer should preserve rights and obligations and provide for the secure transfer of funds, records and personal or commercially sensitive data.

48. Please provide any additional comments on the Bill you feel should be considered. additional comments.

No Additional comments.