Northern Ireland Assembly

Committee for Enterprise, Trade and Investment

OFFICIAL REPORT (Hansard)

Electricity Pricing: Briefing from Airtricity

4 July 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Patsy McGlone (Chairperson)
Mr Phil Flanagan (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Paul Frew
Mr Alban Maginness
Ms Maeve McLaughlin
Mr Stephen Moutray
Mrs Sandra Overend
Ms Sue Ramsey

Witnesses:

Mr Andrew Greer	Airtricity
Ms Fiona Hannon	Airtricity
Mr David Manning	Airtricity

The Chairperson: Before the Committee today, we have David Manning, the director of corporate affairs, Fiona Hannon, the supply regulation manager, and Andrew Greer, the commercial sales manager. You are all very welcome, and thanks for being here. You are probably aware of how the Committee system works, and you have some time to present your case and make your opening remarks, after which members will ask questions. It is over to you. Are you fronting, Mr Manning?

Mr David Manning (Airtricity): Yes, Chairman. Thank you very much for having us along today. I will try to keep the opening remarks as brief as possible to maximise the opportunity for questions, which we are happy to answer.

Airtricity is the retail arm of our business, and SSE is the overall owning business. It is the second-largest energy utility across GB and Ireland and is a top 30 FTSE-listed company. In Northern Ireland specifically, the retail business, which comes under the brand Airtricity, has a little over 300,000 electricity and gas customers. In the wholesale market — that is, in electricity generation — it has 42 megawatts of renewable generation at the moment and a further 46 megawatts nearing completion. By the end of this year, we will be up to 88 megawatts of renewable generation. Since 2008, we have invested around £400 million into the Northern Ireland market, which is quite a substantial investment compared with any company here over the same period. We have 90 direct employees and 60 indirect employees. By indirect, I mean contractors who work at various sites. A primary example of that are the contractors who are building our wind farm project at Glenconway. Along with all our community wind farms, we are also proud of our community investment programme. We have always led in that area. Up until now, our community wind farms have contributed over £300,000 to local

communities, and that number will continue to increase. I will say a little about that later. Overall, since SSE entered the Northern Ireland market in around 2008, Airtricity has brought jobs, investment, competition and choice for Northern Ireland consumers.

I will move to electricity prices, which is the main agenda item for today. I will deal initially with domestic prices and then touch on commercial prices. Electricity prices in Northern Ireland for the domestic consumer are around the EU average. That is quite a favourable position, given the scale of the market in Northern Ireland and the fuel mix. It is always very important to ensure that the price that the customer is receiving is fair. In October 2012, the regulator that regulates Power NI's prices reduced the price by 14%. At that time, we wrote strongly to the regulator and suggested that that was not a sustainable price decrease based on the type of market trends that we were seeing at that time. In fact, at around the same time in GB and in the South, we were seeing tariff increases and an increasing trend in EU gas prices that was pushing the price up. So dropping the price by 14% was, in our view, an unsustainable scenario.

That reality came to pass in July 2013. It was an upward-turning market, but we found ourselves with an out-of-sync regulated price increase of 17·8%, which, effectively, returned the price to pre-October levels. That was driven by a significant under-recovery which ultimately has to be repaid under next year's tariff price control in direct conciliation. Ultimately, there is yo-yoing of tariffs, whereby the tariff drops in October by 14% but then has to be brought back up by 17·8%. That type of scenario and that volatility raises a lot of issues for the consumer. It causes a lot of discomfort and drives a lot of uncertainty.

Why did we drop the price in October 2012 just as Power NI did? We had to follow Power NI in order to remain competitive in the market. We want to grow our market share and to continue to invest in Northern Ireland, so we had to remain competitive with Power NI.

Similarly, as Power NI found itself getting into difficulty with that level of price decrease, when the price came back up by 17·8%, we had to follow that in order to return to a sustainable base level in the market. In October, as I said, we would have preferred not to have seen the sort of price decrease that was delivered because we felt that it was unsustainable.

If customers in the Northern Ireland market have a price that is around the EU average, which is a good position to be in, we would suggest that the main discomfort that has been created here is the volatility — the up-and-down swing of the tariff — which creates a lot of uncertainty for customers.

One of the questions that came up in an earlier session, which was about the role that renewables, particularly wind, play, was related to the fact that Airtricity prides itself on the fact that it is a significant renewables player in the all-island market. Our percentage of renewables is in and around 18%. The question was asked whether we were hedged, given that one of the main drivers behind a price increase was the drive upwards in gas prices. The answer to that question is that wind is a price taker in the market, which means that it sells into the wholesale market to the benefit of all suppliers in the market. There is no direct link between the renewables business, its generation component and the supply business. The entirety of our wind portfolio is sold into the wholesale market, the consequence of which is that it pushes out more expensive fossil fuel generation kit on the system and reduces the overall wholesale price, which benefits all suppliers, not individual suppliers. So the benefit of that wind in the market goes to the customer and is to the benefit of all suppliers. I hope that that brings a little clarity to some of the questions that were posed earlier. I am sure that it will raise one or two issues when we answer members' questions.

I will now turn to commercial electricity prices. We noted from the paper that the Northern Ireland Authority for Utility Regulation (NIAUR) had published the differential between commercial prices in the North and those in other jurisdictions. In the interest of brevity, I will repeat what some of the other suppliers have said.

There are distinctions between how certain charges arise for commercial customers in the market here and on which other markets take a different view. There might be a different taxation regime, for example, a different balance of network charges, or rebates that are provided back to large energy users (LEUs). These are challenging policy questions because ultimately you have a cost for the network, which has to be recovered. It depends on who you are going to allocate certain costs to.

In the ROI market, which the Committee has discussed already, some of the charges are rebalanced into the domestic sector in favour of LEUs, which helps to draw down the LEU price. These are difficult out-of-market policy questions, and I appreciate that they are quite challenging. The

Committee has considered those already, but, once again, we will be happy to answer questions about that.

What is Airtricity doing for customers in the Northern Ireland market? Discounts are a huge factor for consumers, and customers who switch over to our products are saving good money. We are also making life easier for our customers. We have introduced new systems, including e-billing, online user consumption data and energy-saving advice and techniques. We have made our customers' lives easier by enabling them to go online to top up their keypads. In that, we have very small vends; you can spend £5 to top up your meter. We are the only supplier that provides that type of vend. We have the budget plan, which relates to the point about volatility. Many customers find that their bills go up during the winter and are quite low during the summer. There is also the volatility and swing in tariff changes. The budget plan allows people to have a flat monthly bill, with an average yearly bill broken down over 12 months. That gives customers steadiness and consistency so that they can budget better. We also have the Airtricity reward scheme. We have various partnerships with many companies, including electrical goods suppliers, across all sectors of the economy. Those rewards accrue for our customers, and they can benefit from special deals and lower prices. I invite you to go onto airtricity.com to read about that rewards scheme; it is actually rather good.

I will draw attention to three particular things that we are doing for consumers in Northern Ireland. The first is the sales guarantee. We are the only company that provides that. We are so confident in the quality of our sales practices that we guarantee that, if we step out of line and our customers are found to be at a financial loss as a consequence of moving to a product that we offered them, we will make good the difference. We are very confident about the quality of our sales process. That brings transparency to customers. There are two elements: it gives customers confidence in us and ensures that we are as good as would like to be; and we are also introducing technology to reduce costs. E-services will be very important for consumers in reducing costs. We would like to think that we are leading the market in the delivery of that e-service technology. The final element is the renewables component in the fuel mix and its ability to reduce the wholesale price for customers.

There are three main focal points at a community level. We have our community fund. First, I referred to the fact that we will have around 88 megawatts of generation by the end of this year. That will contribute around £180,000 per annum to local communities around our wind farms. Secondly, we have community volunteering. There is an initiative in the company whereby any member of staff is free to take a day's leave to participate in any volunteering initiative that they care to. We actively encourage them to do that. We are proud to say that, across the SSE group across Ireland, North and South, we have the highest rate of community volunteering among staff. In Northern Ireland, we had 100% volunteering, and all staff gave a day to a local community initiative. We run on the financial year, but since the start of this year, we have already delivered the equivalent of 90 days of voluntary service to six charities. Finally, we are involved in an eco-schools initiative. Airtricity is the main sponsor of the energy pillar of eco-schools. We have brought many services, initiatives and education platforms to over 10,000 pupils. Most recently, we took 150 schoolchildren up to our Slieve Kirk wind farm as part of an eco-schools energy rewards programme. It was a very enjoyable day all round, and we have information on that on our website.

The following question has been asked at previous Committee meetings: if these issues were to be addressed, would that benefit the Northern Ireland customer? Four areas can be looked at. The first is greater stability in regulated tariff management to avoid tariffs yo-yoing. The second is consideration of the impact of network charges on large energy users. The third is to repair the Moyle interconnector and to build the North/South interconnector. Moyle obviously has a cost while it is not operating, so the sooner that we can get that back up and operating, the better. Similarly, the North/South interconnector is important in reducing constraint in the system. The sooner that it can be constructed, the better. The final area, which is perhaps most important and the one that I am particularly keen on, is the role of energy efficiency. Ultimately, helping customers to consume less energy is the way in which we will be able to help them to reduce their energy bills in a world in which the cost of fossil fuels continues to increase. We want a greater focus on energy efficiency.

Thank you very much. Those are our main remarks. We are happy to take any questions.

The Chairperson: Thanks very much indeed. I have a number of questions, and then I will open it up to other members. I want to pick up on your comment that the October 2012 price decrease of 14% was unsustainable. We have a research briefing note from the Assembly Research and Information Service. It refers to SSE Generation Ireland Ltd returning a net profit margin of 36% in 2011-12 on a turnover of just over £90 million. Have you any indication yet of your company's profit margin on this year's returns?

Mr Manning: Those numbers seem remarkably high. I am not quite sure about that. I would be happy to take that away and have a look at it. If the question is about the profitability of the business, the most obvious answer is that our company makes a profit of around 2p per customer per day.

The Chairperson: We want the end-of-year profits filed officially on behalf of the company. Are you saying that the figures that I have just presented are wrong?

Mr Manning: I cannot say whether they are wrong. I would need to look at them. I am unfamiliar with them.

The Chairperson: It would be a cause for concern if you were to say that they are wrong. Obviously, if you cannot clarify those figures, you will not be able to clarify what the profit might be this year. Could you please confirm in writing that those profit figures for last year are right and clarify what your profit might be this year?

Mr Manning: Yes; absolutely.

The Chairperson: That brings us to the 17·8% price increase. Many of us could not understand that. Your company piggybacked what happened with Power NI. The price jumped up to being a little bit beneath that of Power NI. One of the main components of Airtricity's advertising and promotion is that it uses renewable sources. I see that the actual figures are 18% from renewable sources and 31% from gas. Given that you were piggybacking Power NI, we could not understand why your leap should be the exact same at 17·8%. Power NI told us that it had 11% and that the reason for the leap was irregularity of prices in the gas market. However, you source 31% from gas and 18% from renewables. Will you explain why you should have jumped the same amount as Power NI when it sources less from renewables and you source less from gas?

Mr Manning: Let us deal with the renewables question first. I mentioned it in my presentation. The renewables portfolio is sold directly into the single electricity market (SEM). As wind blows on the system, it displaces more expensive conventional generation sets and reduces the wholesale price for the entire market. The whole market buys its power out of the SEM pool. There is not a direct correlation between the renewables part of the business and the supply side. All renewable power into the pool reduces the cost of the overall pool. All suppliers buy out of that pool, so all suppliers benefit from that.

The Chairperson: Why do you bill Airtricity as having the advantages of a renewables company?

Mr Manning: We do that because we are the largest generator of renewables in Northern Ireland and on an all-island basis. The impact of our renewables business is to reduce the wholesale price on the market to the benefit of all.

The Chairperson: So, you are saying that it is of no direct benefit to Airtricity whatsoever that it takes a roundabout route.

Mr Manning: Yes.

The Chairperson: That brings me on to my next question. What do you feel about the additional regulation of costs and the capping of costs? The way that it has been portrayed to us is that companies such as, in this instance, Power NI jump by 17·8%, and the average consumer sees all the other companies piggybacking on that and then showing considerable profits. What would you say to the slightly jaded or cynical person who states that all that is happening is that those companies are taking full advantage of another company raising its prices by keeping its prices a tad lower? We are looking at renewable sourcing here, which is supposed to keep prices down. However, that is leading to excessive profit margins for companies. We all expect companies to make a profit because that is what you are in the business for, and we support all companies in that, but if excessive profits are being shown as a result of that piggybacking, is there a need for additional regulation to control those price hikes in the interests of all consumers? That is our concern. It is good that you are a successful company, but our concern is essentially for the businesspeople who complain to us. That has happened in Committee, and, last Friday, I visited a pretty big business that complained about energy costs. People who visit our constituency offices are complaining about energy costs and difficulties

and the position that it places them in in having to make choices between, in some cases, heating or eating. How do you look at the question of the introduction of additional regulation?

Mr Manning: There is a differentiation between commercial and domestic, in the sense that the 17·8% increase refers to domestic. That increase comes following a 14% price decrease in the market at a time when it was unsustainable. From a customer perspective, that nets off. Where they are today is where they were in October. That is a very important point that we have to recognise.

The Chairperson: What point are you making?

Mr Manning: Customers have experienced volatility in the tariffs. They saw a 14% price decrease last October and a 17·8% increase because the regulated entity was losing money. When the regulated entity loses money, the reconciliation for the following year has to recapture that loss.

The Chairperson: Could you explain how you see that as unsustainable? Clarify that for us. I understand the basics.

Mr Manning: When you drop the price by 14% in an upward-turning market, it means that the costs of energy and the costs of supplying the customer go up quite considerably. The price that you charge the customer is very low, and you do not recover the cost of supplying that customer. I understand that, when Power NI was before the Committee, it outlined a loss of £23 million in the first quarter.

I will move the conversation on to profitability. Power NI's regulated margin is 1·7%. For us to be competitive in the market, we need to compete at in and around the same level to attract customers to Airtricity and to be able to deliver to them the type of quality service that we can. Tariffs in 2008 and today are broadly the same. Airtricity's competition in the market has, in effect, drawn pressure to drive costs out of the market to ensure that customers are getting the best value for money.

The Chairperson: That is a bit of a leap of faith, is it not?

Mr Manning: Why?

The Chairperson: It is your conclusion that Airtricity's intervention has led to that.

Mr Manning: I said that Airtricity being a competitor in the market has helped.

The Chairperson: I have one more question, and we will then move to other members. I put a question to you about additional regulation, and I did not hear any clarity on that.

Mr Manning: There are two answers to that. First, at the moment, Northern Ireland will face a capacity shortfall in 2016 as plants close onto the system. If would-be investors felt that the market was hugely profitable, they would be lining up to invest in the Northern Ireland market, but they are not. That is why Northern Ireland is facing a capacity crunch in 2016. No would-be investors are looking to invest in the market, and that is a concern. Secondly, the Economic and Social Research Institute (ESRI), which is one of the main economic think tanks, looked at the single electricity market in 2009 and republished a second report in May this year. Both those reports found the returns earned by generators in the market to be fair. That was an independent analysis undertaken by the Economic and Social Research Institute.

Mr Flanagan: When was that done?

Mr Manning: The first report was in 2009, and the second report was in May 2013. It updated the original report.

The Chairperson: Did it look at all companies?

Mr Manning: It looked at the whole market.

The Chairperson: I ask because of the variation in profit margins, with some companies losing out substantially to the likes of Airtricity, which is up there on a 36% profitability return.

Mr Manning: Another important aspect to that is the cost of wind in the system versus the cost of other conventional plant in the system. With wind, the upfront capital cost to get into the market is very high, but the running costs are low because there is no fuel cost, whereas conventional generation has a very low capital cost per megawatt but a very high running cost. So when you look at the market and say that conventional generation is being remunerated, that is because the market is structured to remunerate conventional fossil-fuel generation. So there are, to some extent, swings and roundabouts in the two remunerations.

The Chairperson: Let us return to the question of regulation. I did not hear you say yes, no or maybe.

Mr Manning: At present, the market is well scrutinised and well regulated. It is very useful to have reports from ESRI, the SEM committee, which produces the generator profitability report, or NIAUR. Although we have queries about some of the information in the NIAUR report and what it chose to compare, it is, at the same time, very useful, in that it generates debate and conversation. That type of scrutiny and monitoring of the market is very useful, and the single electricity market is extremely transparent. Anyone who wants to know what someone else is doing in any half hour can go on to the SEM operator website. It is a highly transparent and highly monitored market. So, in answer to your question on whether it requires more regulation, I think that, as it stands, it is a well-regulated and well-monitored market.

The Chairperson: That is a no from you, anyway.

Mr Manning: Well, if it is well done —

The Chairperson: Right, OK. I hear you

Mr Flanagan: Thank you for the presentation. First, may I take you back to your comment about the 2012 price decrease being unsustainable? You state, both in your written brief and here today, that it was unsustainable, but you had follow it to be competitive. Will you elaborate on that? How much cheaper than Power NI does Airtricity claim to be for domestic customers? Why did you think that you had to follow with such a large price decrease to remain competitive?

Mr Manning: Phil, would you mind repeating the question?

Mr Flanagan: You said that Power NI's decision to reduce its prices by 14% in 2012 was unsustainable but that Airtricity felt that it had to follow to remain competitive. Will you elaborate on that?

Mr Manning: Airtricity entered the Northern Ireland domestic market in 2010. We have had a very successful period in the market and had quite a significant number of customers switching to us. It is a very low margin business. The regulated margin is 1·7%, so we have to compete against that. So when Power NI dropped its price, or had its regulated price reduced by 14%, for us to continue to be successful and grow in the market, we needed to reduce our price commensurately.

Mr Flanagan: Did it have to be by 14%?

Ms Fiona Hannon (Airtricity): We do not think that we would have retained our customers had we not matched the 14% decrease. Realistically, had we dropped by 4%, and customers felt that they could get a lower price from Power NI, they would have switched.

Mr Flanagan: Had you dropped by 4%, who would have had the cheaper electricity?

Mr Manning: Power NI would have had the cheaper electricity.

Mr Flanagan: By how much?

Mr Andrew Greer (Airtricity): By 10%, because 14% minus 4% is 10%.

Mr Flanagan: I thought that Airtricity was cheaper than Power NI, is it not?

Ms Hannon: Customers would still have been getting discounts. We would have dropped the price by 4%, but they would probably have been paying a similar price.

Mr Flanagan: So dropping the price by 4% would have left Airtricity and Power NI customers on a level playing field? Could you not have picked a number between 4% and 14%? You would still have been making money and making it attractive for customers to switch from Power NI to Airtricity, but the price that you were charging would not have been unsustainable.

Ms Hannon: It could have been, but we wanted to maintain that level of discount.

Mr Flanagan: You said that it was unsustainable.

Mr Manning: It was.

Mr Flanagan: So why did you do it?

Mr Manning: We wanted to be able to continue to build market share and attract customers to our business. If your business is not growing, Phil, it is declining.

Mr Flanagan: When we received a briefing from Power NI, Mr McCully said:

> *"The price control model theoretically allows you to recover any losses. In the first three months of this year, we ran at a loss of £23 million, which was the burden of the increase in wholesale prices."*

That is all right for Power NI because it can claim that £23 million back from consumers in further price increases, and that is what they are having to do. I presume that for you to do that entails a normal commercial risk. How much did you lose in the first three months of this year from the reduction in price by 14%?

Mr Manning: Sorry, Phil, I do not have that number off the top of my head. I can go back and have a look at it.

Mr Flanagan: You will find out, then.

The Chairperson: We can get that in written form, in the same way as the other information.

Mr Flanagan: You outlined that one of the biggest problems with electricity is the continuing significant price increases and decreases. In 2012, when Power NI outlined its 14% decrease, could you not have stated that you would not follow suit? I do not mean to tell you what your marketing strategy should be, but would it not have been a good opportunity for Airtricity to come out and say, "We will not follow this 14% price decrease because it is unsustainable". I read your press statement from 2012, and nowhere did it say that 14% was unsustainable and should not be done.

Mr Manning: The submission to the regulator said that.

Mr Flanagan: The point is that you did not make that known to the public. Would it not have been an opportune time for an organisation such as yours to come out and say, "We will not do that because it would lead to a price increase in the future, and we want to avoid that"? If you want prices to be more stable, instead of always following what Power NI does, why do you not introduce that as a model for your customers? You are not regulated, and you do not need anyone's permission to do it.

Mr Manning: Alternatively, the regulated market could be less volatile.

Mr Flanagan: You are the ones who follow the volatility.

Mr Manning: That is why I would like less volatility in the market.

Mr Flanagan: Why can you not bring in less volatility for your customers instead of worrying about what Power NI and the regulator do? If you say to me that what is best for customers and what they

want is less volatility and fewer big shifts in pricing, why do you not do that instead of waiting for others to introduce it? If it is that big an attraction for customers and you can sell it to them, you will get more customers than by increasing prices by 17·8% just because Power NI does.

Mr Manning: What I said was that the volatility created a lot of uncertainty for customers. If customers see a 14% decrease in other suppliers' prices in the month of October and we do not move our price down in line with that, they will say that we are 14% more expensive than the market. What choice do we have? If we hold firm and customers move away from us because they see Power NI drop its price by 14%, we are not offering the most competitive tariff in the market, which is where we need to be.

Mr Flanagan: Can you change your price at any time, or is there a certain window in which you have to do it?

Mr Manning: When can we change our tariffs? We are a competitor in the market, and we can do it at any time.

Mr Flanagan: Why did you leave it so long after Power NI announced its price increase to announce yours?

Mr Manning: I think that it was a week.

Mr Flanagan: How many additional customers did you get in that week?

Mr Manning: If you wish, we can come back to you with that information.

Ms Hannon: Any customers who switched to us in that week were still within their cooling-off period and could have switched back or cancelled their switch.

Mr Flanagan: I was talking to a man not too far from here — he may be standing outside the door — who made the switch and is now very disappointed that you simply followed Power NI by putting your prices up by 17·8%. I presume that many have similar frustrations. Why did you wait for a week? People were very frustrated. It was a big story that Power NI's prices were going up by 17·8%. Why did you wait for a week to announce that you were doing the same thing?

Ms Hannon: First, the move by Power NI was unexpected, so we were not prepared for a decision like that to be published at such short notice. We then had to try to put together our corresponding announcement in that short period. Ordinarily, price increases would happen on 1 October, and we would have a schedule for that and expect it to happen, but this came out of the blue.

Mr Flanagan: So you did not know that Power NI was going to put up its prices?

Mr Manning: No. Most price reviews take place within a fixed period. October is when those price changes happen, so this was out of sequence and exceptional. This goes back to the point that the 14% decrease was unsustainable in the long term. However, I will turn the question around, Phil: if your constituents were to become customers of Airtricity on our introductory discount, how much money do you think that they would save over a two-year period?

Mr Flanagan: I have no idea.

Mr Manning: The answer is £2·6 million, and, if all customers in the Northern Ireland market were to change over to Airtricity on its introductory discount, the home market would save about £50 million over a two-year period. Those are very sizeable, favourable savings for the customer.

Mr Flanagan: If every customer switched to Airtricity and saved money, I would still contend that you could do much more to make your electricity affordable. We have seen reports that show that. I have here your annual report from 2011-12, which says that the network side of your business made a 44% profit, the retail side a 19% profit and the wholesale side a 37% profit. None of those have the 1·7% margin that you claim Power NI has. It is very clear to us that you are making huge sums of money.

Much of that is driven by the fact that, for your wind farms, you are paid the full price based on what people burning gas or oil to generate electricity are paid. How is it fair that an organisation that generates electricity from a wind farm — this applies to anybody who owns a wind farm; it is not personal — can charge the full price to sell that into the single electricity market and then double-charge the full price again to sell to a consumer? How is that fair for consumers?

Mr Manning: First, it is not the case that we are making a large amount of money. In effect, what we are doing is making investments in very large capital infrastructure projects. The cost of that capital has to be remunerated. When you build one of these projects, it takes 10 to 15 years before you even start to make any money because you have to pay back the cost of the capital and the interest. The depreciation on that is a very sizeable amount.

Your second question was on the remuneration of wind in the market, and you talked about wind getting the same price as gas. However, it is a marginal cost market. That is the way that the SEM was structured. Over four years, both regulators, the industry and consumers worked together to deliver a market that would lower the cost for the consumer. In fact, the wholesale market is significantly cheaper today than it was in 2007, as you will see in the generator profitability report.

Mr Flanagan: The wholesale price is cheaper, but the price that consumers pay is not. The fact that it costs less to generate electricity has not had the same downward effect on domestic prices that it should have. The reason for that is that the boys in the middle are getting too much profit.

Mr Manning: No, it is because the cost of the input fuels going into the market has also gone up at the same time.

Mr Flanagan: The price of your wind or anybody else's wind has not gone up, David.

Mr Manning: The majority of the market is made up of conventional fuels — how much wind and how many renewables are installed in the market? The other point is that the question is always posed in this context: why does wind get the same price as gas? Coal gets the same price as gas in the same period. It is the marginal plant in the system. All plant in the system generating power at a particular point in time get the marginal cost. That is a basic principle of marginal cost pricing — in any market.

Mr Flanagan: The point is that it is not delivering for customers; it is delivering for some generators.

Mr Manning: How can it not be delivering for customers, Phil, when the customer in Northern Ireland pays the EU average? Look at the amount of fossil fuels currently in the system. It is a majority fossil fuel market and very small in scale. Still, the Northern Ireland customer pays the EU average. I think that that is fairly favourable, given the disadvantages that the market has.

Mr Flanagan: The reason for it not delivering is that SSE made profit margins of 44% on the networks, 19% on retail and 37% on wholesale. That is why the single electricity market does not deliver for domestic customers.

Mr Manning: I do not think that that is a fair representation, Phil. As I explained —

Mr Flanagan: I took that information from your operating —

Mr Manning: I do not think that that is a fair representation. You are saying that we are making all this money, but, as I explained, there are very large capital infrastructure projects that have to be remunerated, and they do not wash their face for 10 years or more. As I said at the opening of my presentation, we make, on average, about 2p per customer per day. A cup of coffee costs quite a lot more than that. Given the amount of utility that electricity provides, do you not agree that that is value for money?

Mr Flanagan: You are telling me that you are making money but that, really, you are not because you are spending it all on capital. If that is the case, why was —

Mr Manning: I just told you that we are making a profit.

Mr Flanagan: Yes, but you qualify that by saying that you have to invest —

Mr Manning: You said that we were making a substantial profit; I was just clarifying that for you.

Mr Flanagan: So you do not think that 44%, 37% and 19% are substantial profits.

Mr Manning: You are talking about percentages; I am talking in real terms. The business that we operate is in a volume business across a large number of customers. When you put out a very large number, that sounds great. However, when you split that across a customer base of x number of hundreds of thousands of customers, it equates to a much smaller number.

Mr Flanagan: I do not think that 44% is a small number, David.

Mr Manning: I am talking in real-term prices.

Mr Flanagan: How much profit did you make last year?

Mr Flanagan: You say that you have the report in front of you.

Mr Flanagan: If you divide that between all your customers, what would it give you? According to your accounts published in March 2011, there were profits after tax of €32 million. I think that that is only in the South. That is a net profit margin of 36%. According to your 2012 report, gross profit was £1,356,000,000.

Mr Manning: Are you looking at the SSE report, Phil?

Mr Flanagan: Yes.

Mr Manning: That is a GB-wide and Ireland business.

Mr Flanagan: It is SSE. Is that not what we are talking about?

Mr Manning: That is an all-islands business. It is GB and Ireland. You are quoting numbers that apply to the overall wider business.

Mr Flanagan: Airtricity and SSE are the one business.

Mr Manning: Yes.

Mr Flanagan: That is the report that I am quoting.

Mr Manning: The business that we have in Northern Ireland adds value to those overall figures and results. Sorry, I thought that we were talking about Northern Ireland and the single electricity market.

Mr Flanagan: I do not think that you produce a report just for here, do you? You produce a report for the whole company.

Mr Manning: No, we publish annual results.

Mr Flanagan: I will move on to the argument that SSE and Airtricity are the same company. You spoke about the community benefits from your wind farms. If SSE and Airtricity are the one company, why is there such a differential between the amount per megawatt hour of community benefits that people receive here and the amount received in Scotland and Wales?

Mr Manning: Sorry, may I just have a moment? Unfortunately, I am slightly sickly.

Mr Flanagan: You will get a pile of sympathy.

Mr Manning: An aspirin would do fine.

Mr Flanagan: I am not even allowed to give you a scone. *[Laughter.]*

Mr Manning: The community benefit question is very interesting. We have to seek planning permission to secure the development of any project, particularly wind, which is the main piece that we develop in Northern Ireland. When I do that in other jurisdictions, it is a very straightforward process. It is very visible, the costs are streamlined and I know my exact costs when I go to deliver on that, so I can share the benefit of delivery with our customers. We pay 1% of the revenue of the wind farm to those local community groups. In other jurisdictions, where the value of the community fund is higher, the process is streamlined, so the saving and value can be shared with the customer. However, in Northern Ireland, we tend to have a bit of difficulty when we move through the process because delivery is not as streamlined. If we can get the cost of delivery down, we can share the upside and value of that with communities. We are asking ourselves the question about the value of community benefit here.

Mr Flanagan: Is there a direct correlation between the cost of putting a wind farm up here compared with in Scotland and Wales and the community benefits that result? If the community benefits here are one fifth of those in Scotland and Wales and a new wind farm here attracts £1,000 per megawatt hour but £5,000 in Scotland, are you saying that it costs five times more to build a wind farm here than in Scotland?

Mr Manning: Why five times?

Mr Flanagan: Well, £5,000 per megawatt hour is five times £1,000 per megawatt hour.

Mr Manning: We do not contribute £1,000 per megawatt hour. We lead the market and always have. Airtricity was the body that founded the principle of community benefit and involvement. It is 1% of the revenue of the wind farm. I think that ours worked out at, on average, about £2,800 per megawatt hour.

Mr Flanagan: Is that here?

Mr Manning: Yes.

Mr Flanagan: What was it in Scotland?

Mr Manning: Scotland is a flat rate of £2,500 a megawatt hour.

Mr Flanagan: Is it not £5,000?

Mr Manning: No. There is also a wider regional fund: it is £2,500 for a local fund and a further £2,500 for a regional fund.

Mr Flanagan: So, effectively, £5,000 has been taken off you by the Government.

Mr Manning: No, it is not taken off us by the Government. That is a voluntary fund that we contribute to the local community.

Mr Flanagan: Which one is voluntary?

Mr Manning: Both of them. The one in Scotland and the one here are both voluntary.

Mr Flanagan: So you are volunteering to hand over £5,000 per megawatt hour in Scotland and, on average, you handed out £2,800 here. So does it cost twice as much to build a wind farm here as it does in Scotland?

Mr Manning: As I said, there is a differential in their value, and we are looking at that.

Mr Flanagan: Is it nearly twice the price here?

Mr Manning: No, it is not nearly twice the price.

Mr Flanagan: Then why do we get only half the benefit here?

Mr Manning: When we started developing community funds in Northern Ireland, Airtricity took the lead.

Mr Flanagan: I understand that.

Mr Manning: It was the business that set the standard for the rest of the industry. Since then, the rest of the industry has come along in quite a significant way. We are going through a phase of reassessing the value of a community fund and community benefit. However, in all of this, we must ensure that the community gets value from the money contributed, and we are always very keen to focus on that. So, as a business, we will go out and meet local community groups. A pot of money associated with wind farms is available to them, and we will work with them to deliver the best projects that they can.

Mr Flanagan: Are any wind farms in the process of being built?

Mr Manning: Yes.

Mr Flanagan: Will you give me one example and an idea of the proposed community benefits per megawatt hour?

Mr Manning: Glenconway is coming towards the back end of the process. Do not forget that you are talking in absolute terms about £2,500 a megawatt hour, whereas we work on percentages. So when the wind farm performs very well, the pot of money available at the back end also does very well, and the community shares the benefits. That was another reason why we went for the percentage. It is historical: this goes back almost 10 years. The 1% revenue ensures that the better site and the value created from that are shared with the community. It is index-linked as well.

The Chairperson: We will probably not resolve the community benefit issue here today, although it is very important.

Mr Manning: I agree.

The Chairperson: You say that you are conducting a review of community benefit. That would be important information for us to have as part of our review, if you were fit to provide us with the details when it is complete. Do you have any indication of when that might be?

Mr Manning: We will work on this through the summer.

The Chairperson: So you might be finished by the back end of the summer?

Mr Manning: Yes, absolutely,

The Chairperson: If you could provide us with that, that would be grand. Phil, had you something else to add?

Mr Flanagan: I have a question that can be answered with, I hope, a yes or a no. Did the Committee for the Environment seek access to one of your wind farms in west Tyrone last week?

Mr Manning: Phil, the letter was read out today at the Committee for the Environment's meeting.

Mr Flanagan: If they are dealing with it, that is OK.

Mr Manning: Well, perhaps, since you asked the question, you could give me an opportunity to respond to it.

Mr Flanagan: If you want to answer it, that is OK.

Mr Manning: I do not know whether any members of the Committee saw a UTV piece last Thursday evening. It referred to Bessy Bell, one of the wind farms owned by SSE. All I can say is that our business was very badly misrepresented. We received a phone call on Thursday 21 June from Strabane. It was an informal phone call; there was no formal letter or invitation —

The Chairperson: To be fair, that is probably being dealt with elsewhere.

Mr Manning: Sorry, Chairman. I appreciate that, but it is important —

The Chairperson: I am sorry; we are not getting into that. That business is being dealt with in another Committee.

Mr Manning: As Phil brought it up, perhaps I could furnish this Committee with the same letter that the Committee for the Environment received. That will address that point.

The Chairperson: That is grand.

Mr Agnew: Thank you, David, and your team for your answers. First, Chair, I should declare an interest as an Airtricity customer before I am pulled up for not doing so.

The Chairperson: You were not standing outside the door talking to Phil a while ago, were you? *[Laughter.]*

Mr Agnew: No, I was not one of those who became a customer during that week-long window. I have been a customer for a number of years.

I hope that you will appreciate that, from the point of view of people who work outside the single electricity market, it can be a complex market to get to grips with. You spoke about how renewables bring benefit at the wholesale end when selling into the single electricity market, and then we all benefit. I know that the wholesale prices are very volatile, but what is the differential in the prices at which wind and gas are sold into the single electricity market?

Mr Manning: Do you mean the differential in the price at which wind bids into the market compared with gas?

Mr Agnew: Yes.

Mr Manning: Wind does not bid into the market. There are two factors associated with wind: priority dispatch and the fact that it is a price taker. On any given day, whatever amount of wind is blowing in the system is dispatched on to the system — that is within the tolerances of the system, if you are talking about system frequency and so on. When the maximum amount of wind is on the system, other plant comes on — generally, coal plant followed by gas plant and then oil peakers, and so on. Whatever the marginal plant is at that point, that is the revenue received.

The market is structured around conventional fossil fuels, so wind gets whatever the marginal price is. As I said earlier, the important characteristic to remember is that wind has a very high capital cost and a low running cost, whereas conventional generation has a low capital cost and a very high running cost.

Mr Agnew: I just want to bring you back a bit. Perhaps I misunderstood this, so will you explain how SSE's renewable generation brings down the single electricity market price?

Mr Manning: Any given day is broken down into half-hour periods. As demand increases through the day, plant is brought on to the system to meet it. If you can imagine that there was no wind on the system at all, you would most likely see your coal plant coming on first when, let us say, people are getting up in the morning, boiling the kettle and making their breakfast. Then you move into mid-morning, where there is a bit of a lull, and it is a bit quieter. Then, coming into lunchtime, it gets busier, with people making their lunch and so on. Demand then continues to increase through the day, and by the time you get to the evening, you are on your peaker plant, which is the last plant to come on to the system. In each half-hour period, whichever plant is beating the price at that point sets the price for everybody else; if you can imagine that in a conventional context.

If renewables are on the system because the wind is blowing, that will displace anything that is further down the curve to the right, because wind has zero marginal price. So, the more expensive plant that sets the marginal price is displaced by wind. So, it is actually the cheaper plant that is running on the system, and that is what sets the price.

Mr Agnew: OK. So, when demand is lower and wind is meeting that demand, the price is lower, but when demand increases, all electricity is effectively sold at the same price to the market.

Mr Manning: Yes, that is exactly it. In the industry, the language used is that wind destroys its own price. What happens is that, as more and more wind comes on the system, displacing more and more expensive conventional sets, the price gets lower and lower and so it does not make the money back. Does that make sense?

The Chairperson: Maybe I could labour that point, Steven; I want to tease this bit out.

Mr Agnew: Yes, sure.

The Chairperson: Are you anticipating a significant price drop if we meet the 40% renewable target?

Mr Manning: No, I think that what is more likely in reality is that it will force down the cost of the wholesale price. However, you will then get to a point where the market is not sufficiently remunerating plant that are on the system. So, it is not the case that the price will collapse away significantly. If there were — we are into the land of theory here — huge amounts of wind on the system, it would become the predominant fuel, with the marginal cost plant down at the very bottom. However, that plant would have to be remunerated and make money, so you would then have to look at how the market operates and how the market remunerates plant on the system. EirGrid, as the TSO in SONI, is doing a very significant exercise at the moment where it is looking at how you remunerate plant in the whole system if you have a high penetration of renewables. It is called the DS3 programme.

Mr Agnew: As somebody who has significantly promoted renewable energy, I rely on the arguments that renewables will certainly stabilise prices, and, I hope, be able to bring the price down in the long term.

When Airtricity put out a statement saying that it had to put its price up because of the wholesale gas prices — we as a Committee are now getting to understand that a number of jumps led to that — I can see why the consumer was confused. The consumer said, "I have signed up to Airtricity because of all the wonderful renewable energy, which, I am told, will stabilise and bring down prices. However, because of gas prices, my renewable electricity supplier has put the price up." That does not help my argument, and it certainly does not help the argument for the renewable energy industry.

I have two questions. First, how do we help the consumer to better understand the situation, and how will Airtricity seek to do that? I think that that press release was misleading. Secondly, how do we get to a stage where renewables provide those benefits of stabilising prices and, as I say, bringing them down in the long term? I fully accept that the upfront costs are more expensive, but how do you get that balance? Are we saying that, because of the upfront costs, renewables are not really cheaper?

Mr Manning: The answer to that question is that, at this point, the penetration of renewables in the system is not substantial enough to have the type of material impact that we are discussing here at the moment, although it is having a positive impact. I appreciate that it is, undoubtedly, a complicated issue to explain to the average person on the street.

There are two answers to your question about why we have put the price up 17·8% even though we have renewables on the system. First, the penetration of renewables on the system is still quite minor relative to the overall system, and there is still a massive amount of fossil fuels on the system. Secondly, that then means that the price continues to be driven by the conventional plant on the system, which is predominately gas.

Ms Hannon: I think you are right. It is very difficult for the average person on the street to understand, but it is something that the industry maybe needs to look at with the Consumer Council in order to produce one page on how the electricity market works. That might be useful for people so that they

understand that everybody is buying out of the same pool. So, we might talk to the Consumer Council about it.

Mr Greer: We have talked about Airtricity and SSE being a renewable generator. Yes, we are, but we also invested in more efficient conventional gas generation. We are building a power station in the SEM, which will be commissioned next year. That will obviously be up to date and use the latest technology, and that in itself will displace some of the older generators that have been there, which will have the same positive impact of reducing the wholesale market prices.

Mr Agnew: Gas is essentially the price-setter as the most expensive fuel. The most expensive unit of fuel sets the price. How does that work? We had the analogy that Phil used — I apologise for coming back to it — of the two bags of spuds. The Utility Regulator said, "Yes, but we need all the spuds". In the model that you outlined, that is not strictly true, because, at different points of demand, we may not need gas to come on stream, or whatever it might be. So, as we look to greater penetration of renewables, gas is only the price-setter when there is high demand. Is that an accurate description?

Mr Manning: There are different types of plant: base-load; mid-merit; and peaking. In the base-load category, mainly coal would meet that demand. Gas would be in the mid-merit category — that middle-of-the-day type of power. Then, you are getting into open-cycle gas, because it is fast reacting, and oil in the latter part of the day, so that would become the price-setting plant.

Mr Agnew: OK. I appreciate the answers, because it is a complex market to get your head around when you do not do it day and daily. On the issue of profits, we have the figures as outlined by Phil from the annual report. I am just disappointed that we cannot have a full discussion about profits because you do not seem to have come with the information. It is a big concern. The perception is out there, rightly or wrongly, that renewable generators are making excessive profits. I fully accept that there are high upfront capital costs. However, on one hand, when you produce a report for your investors, you say that your profits are huge and you are doing great; but, on the other hand, you are coming to us and saying that, actually, your profits are not too big. I am not sure that that circle has been squared today.

Mr Greer: There are independent businesses. There is a generation part of the business and a retail part of the business. Different margins are made at different aspects of the value chain.

Mr Agnew: Yes, but the retail was 19% and the wholesale generation was 37%. Those are the figures that were in the annual report.

Mr Greer: Across SSE?

Mr Agnew: Yes.

Mr Greer: Power NI, which, essentially, is the price-setter in Northern Ireland, has a regulated margin of 1·7% as such, and we are below it in pricing. We face exactly the same wholesale costs as it for that particular half hour. We will get charged the same price as Power NI and all other suppliers from the SEM. In this local market, those levels of margin are not being made.

Mr Manning: Steven, we would like to take those numbers away, and we will write back to the Committee on them.

Mr Agnew: I was just expressing disappointment. If I was in your position, I would have anticipated questions about profit, but I appreciate that you are going to come back to us.

Mr Manning: The only reality that I can refer to is that the regulated business has a margin of 1·7%. That is what we have to compete at, so, de facto, that is the margin that we get set under retail business. I do not have the numbers for the wholesale market in front of me, but I can present the anecdotal evidence that, if there was that much money to be made in the market, guys would be queuing up to replace the capacity crunch that is coming in 2016, but they are not. From a DETI and NIAUR perspective, they are looking quite closely at what needs to happen in the market in order to get that plant built.

I have one last point on that. Although the ESRI paper found that the SEM delivered fair returns for generators in the market, when compared with the GB market, where, at present, it is not making

reasonable returns, we find ourselves in a situation as a business, that is, SSE, where we have closed a plant that is fully capable of running in the market because it was just not making any money. In fact, there have been periods when it was priced negatively. So, in other words, if we wanted to run our plant, we would have to pay the market to allow us to run it. That is just to set the differentials in context.

Mr Dunne: Thank you very much for your presentation, answering questions, and so on. You gave us a figure of 300,000 electricity and gas consumers in Northern Ireland. What is the breakdown for gas? How is that managed in the existing networks, which you are, obviously, using?

Ms Hannon: We have 120,000 gas customers.

Mr Dunne: Where are most of those?

Ms Hannon: They are in the greater Belfast area. At present, we are unable to compete outside that area.

Mr Dunne: Right. What are the savings for gas customers?

Ms Hannon: There is no discount for gas because the gas price is regulated. As we are the incumbent supplier, the Utility Regulator, basically, regulates the price of gas.

Mr Dunne: What is the advantage, then, of going to you for gas?

Ms Hannon: I suppose that, at present, Firmus is competing against us in the greater Belfast area. There is no price advantage in coming to us.

Mr Manning: In the same way that Power NI is the regulated entity in electricity, we are the regulated entity in gas. That follows our acquisition of the Phoenix gas supply in the middle of last year. We are the incumbent supplier, so we are regulated by NIAUR, just as Power NI is regulated.

Mr Dunne: You have 90 direct and 60 indirect employees. Does that include the sales staff who come round our doors trying to encourage us to switch?

Mr Manning: No.

Mr Dunne: Who employs them or is responsible for them?

Mr Manning: When we run sales campaigns like that, we go out to third parties to provide those salespeople. We will sit down with them, train them and provide specific operational procedures around how they must act when they are on the doorsteps.

Mr Dunne: Are you always satisfied with the level of service that you get from those third-party organisations that deal with sales or have you had issues?

Mr Greer: Obviously, our obligations about how energy is sold are taken very seriously. We invest a lot of time and training in those members of staff. A lot of processes and quality controls are put in place. As David mentioned, we have a sale guarantee. If customers are dissatisfied and feel that they have been mis-sold energy, we will put that right.

Ms Hannon: And compensate them.

Mr Dunne: I was coming to that. Why is there a sales guarantee? Is it because of the negative feedback that you were getting about customer disappointment? We have picked up on that customer disappointment. After they have switched, the actual savings are somewhat disappointing compared with perceived savings.

Mr Greer: I was going to say that, sometimes, there is a perception. With regard to the absolute unit cost price, the pricing that we offer customers is lower. We are very transparent, particularly when you have, essentially, a benchmark price, which most customers transfer from Power NI. I think that, for a

lot of consumers, their perception of their own consumption changes. Obviously, in a period of cold weather, they may use electrical heating in their house and have it on a bit longer. If there is warm weather, people turn on fans etc. They may be making more cups of tea or whatever. The whole consumption side of things is also a factor in what the ultimate cost is. Effectively, it is a simple equation of the kilowatt hours consumed times a unit price. We can stand over the unit price that we offer customers.

Mr Dunne: Is it true that there is slippage of people going back to Power NI from you?

Mr Manning: Gordon, the CCNI published a report two weeks ago called 'Power to Switch'. It is a very useful report to have a look at. Basically, what it shows is that, of the customers it surveyed — it did a large customer survey — 97% found the switching process easy with electricity, and, of those, seven out of 10 believed that they had saved money. It is a very positive report, and in switching, the CCNI —

Mr Dunne: It is easy to switch, I do not think that we would argue with that, but we have had feedback that it has not been managed as well as people thought it would be. You obviously needed your sales guarantee system to be brought into place to try to steady the ship because of the feedback you were getting on customer satisfaction. Is that fair?

Mr Manning: No. We introduced the sales guarantee to give the customer transparency and confidence, and we are the only supplier in the market doing that. I do not think it is fair to characterise —

Mr Dunne: To be fair, you had to do it.

Mr Manning: Well, no. I will put it to you this way: 88,000 customers switched to Airtricity in the past year, which is a little over 80% of all customers in the market. According to the CCNI report, 97% of customers found that it was easy, and seven in 10 believed that they had saved money. In that type of a market, there is no evidence to suggest that we would need to bring in a sales guarantee. Rather, we felt that, in order to deliver transparency, consistency and confidence for the customer, we would introduce the sales guarantee into the market. The evidence stacks up to suggest that the customers are quite happy.

For switching, a lot of the conversations that we have are about price. Obviously, I want customers to switch to me, and we have the most competitive price in the market or we have a good offering for a customer, so we would encourage them to come to us. However, if they think that they can get a better deal somewhere else, the customer should look at switching. That is what a competitive market is about.

Mr Dunne: My last point is about the North/South interconnector, which will bring in an all-Ireland electricity market. What will be the benefits to the customer? Do you see it as a priority and something that should be pushed by the Executive?

Mr Manning: Absolutely. The North/South interconnector is a key piece of transmission infrastructure in the all-island market. Even when the market was defended back around 2005, 2006 and 2007, we were talking about how critical it was to deliver the interconnector. The main piece from a customer perspective is that, without the interconnector, there is quite significant constraint in the system, so you cannot move enough electrons across the wire. As a consequence, that costs, if I remember, and I am not going to contradict any of the numbers that were presented earlier, but I think it was around £23 million or £24 million. That is the cost of constraint on the system to the customer. I think it was Viridian that presented that number to the Committee.

Mr Dunne: The issue of security of supply throughout the island was talked about last week. That is certainly a risk.

Mr Greer: It is a huge risk.

Mr Dunne: Within Northern Ireland, there is an extremely serious risk, and it is something that we believe could potentially deter businesses, which are large consumers of electricity, from coming here. Do you feel that the Executive should push the interconnector?

Mr Manning: Yes. If you look at the amount of generation capacity in the all-island market, you will see that there is adequate capacity to meet the needs of customers on the whole island, but because you do not have that North/South interconnector, you cannot flow power South to North or vice versa. We are moving into a phase where it needs to flow from South to North, because there is a capacity constraint coming in Northern Ireland. Unfortunately, the interconnector is not coming quickly enough, so you have to look at what conventional plant you are going to build on the system in order to meet customer demand in Northern Ireland. It is a critical piece of infrastructure.

Mr Greer: If you look at some of the investment in the Republic of Ireland recently, you will see that it has been around data centres and some of the large international names. They have invested in Ireland for a number of reasons, albeit tax is one of them I am sure, and the amount of load that those organisations need is huge. If they thought of looking at Northern Ireland and there was a prospect in the next three to four years that the lights could go off in certain regions, they are certainly not going to spend too long considering it as an option to put their investment in when the whole point of data centres is making sure that they are available 24/7 for their customer base.

Mr Dunne: OK. Thanks very much.

Mr A Maginness: On that last point, if we are unable to establish the North/South interconnector, would you be supportive of derogations for conventional generation to fill the gap?

Mr Manning: I will leave it to the existing plant on the system to have that conversation with DETI and NIAUR. If I could take my Airtricity hat off for a second and talk from a Northern Ireland economic perspective, I would say that security of supply is critical to reputation.

Mr A Maginness: Absolutely. I have been struggling to understand the pricing and so forth. I am not going to go into all that again, but, with your permission, Chair, I will ask a more speculative question. I am not sure whether you will be able to answer it. Gas is the price-setter. What would happen if — this is purely hypothetical — there was a development in shale gas throughout these islands? What impact would that have on price?

Mr Manning: You had your large energy users in three weeks ago. Some of those guys made comparisons between the energy costs in Northern Ireland and the energy costs in other jurisdictions. One of them was the US, where there is now a very high penetration of shale gas. That has driven the price of gas down to, I think, the equivalent of 20p a therm. As a consequence, power prices have fallen away quite significantly.

Mr A Maginness: I understand that the American experience could be replicated in the European experience, particularly these islands.

Mr Greer: Essentially, the island of Ireland is a price-taker. We are intrinsically linked to what is happening in the UK market. The UK market, in turn, is linked to Europe and the globe. Over the past 10 or 15 years, the UK continental shelf production has reduced substantially, so the UK market is becoming more and more reliant on imports, whether from Norway, Europe or through LNG. Obviously, if these islands invested heavily in shale gas, it would put more gas on the system. That would go into the supply/demand balance and would therefore have an impact on the prices.

Also, with the interconnectivity now with Europe, etc — we see that even over the summer time now — if prices are more attractive in Europe relative to GB, gas will flow out of the UK to Europe. As Europe gets more connected, the gas network expands. It is a trading market, just like other commodities. The market will settle the price. Gas will flow to where prices are more attractive. Shale gas will be an important contribution in increasing the amount of supply of gas. It may displace some imports, etc, but, effectively, it will be part of an overall mix of supply.

Likewise, with the demand situation, if the UK invests in gas generation to offset the displacement of coal over the next five years, that would substantially increase demand. There are a lot of competing factors that will influence the price. Like any market, having more of a particular product generally reduces the price.

The Chairperson: Thanks very much indeed for coming along and being with us here today. It has proven very helpful. Of course, you will send us the documentation that we requested, including an update of your assessment of the community benefit stuff.

Mr Manning: In previous sessions and in this one, the one piece of language that I did not want to use was that it is an extremely complicated market. That is just annoying and unhelpful. However, it is. There are a lot of different factors at play. If anybody wants to sit down and go through the detail of the market to get a better understanding of it, we have offered to do that. We welcome sessions such as this. We welcome the robust debate. It is very useful for consumers, who are your constituents, to be comfortable that what is taking place in the market is reasonable and not unfair to them. That is really important. Thank you for the opportunity to be here today. If Members, collectively or as individuals, would like us at any point to go through how the market operates, we are more than willing to give of our time to do that.

The Chairperson: We would find that very helpful. Thank you. I wish you all the best personally, too. I hope that your cold clears up.