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Committee for Enterprise, Trade and
Investment

OFFICIAL REPORT (Hansard)

Electricity Policy Review: Invest NI Briefing

3 October 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Mr Phil Flanagan (Deputy Chairperson)
Mr Steven Agnew
Mr Sammy Douglas
Mr Gordon Dunne
Mrs Sandra Overend

Witnesses:

Mr David Bell	Invest NI
Ms Olive Hill	Invest NI

The Deputy Chairperson: Briefing the Committee today are Olive Hill and David Bell. You are both very welcome. You can make a short statement, and then there will be a few questions for you. The majority of our questions, I presume and hope, will focus on the impact of the price of electricity on Invest NI's ability to attract and retain large industrial and commercial users here.

Ms Olive Hill (Invest NI): Good morning. My name is Olive Hill, and I am director of innovation and technology with Invest NI. I am accompanied by my colleague David Bell, who is one of a number of engineers who work with us to provide technical advice to companies on energy efficiency and renewables. Invest NI meets regularly with companies on a one-to-one basis but also in a round-table scenario to discuss energy and, specifically, electricity prices and the challenges that companies face. The single biggest energy issue for business is the unit cost of electricity, and that, combined with the many existing but also new policies that are emerging, gives out a perception that the pricing of electricity will become even more difficult for some companies. Many of our large energy users in Northern Ireland are companies that form part of international groups. As part of that, productivity and operating costs are always measured across the parent company and the number of sites. That is when we start to see the evidence of some of the problems coming through. In many of the instances that are discussed with us at an individual company level, we are finding that the case, invariably, is that energy costs here are significantly higher — usually at least 30% higher — than at some of the other sister sites in other parts of Europe and further afield.

Businesses are very concerned about the number and impact of pass-through charges. On a number of occasions, we have tried to do some work around pass-through charges to try to get some sort of visibility and transparency around that, with very little success. That information is treated as extremely confidential by both the regulator and the energy suppliers. That is an area that we have struggled with. There are also concerns that interconnection and renewable targets will impact on electricity prices. That is something that is often brought to the fore with us.

As an organisation, Invest NI has not lost any new projects as a result of energy pricing yet. However, we are increasingly aware that energy pricing could become a barrier to reinvestment. So, when a proposal comes from an international company and it puts it out to its various sites across Europe and the world, the operating costs will, obviously, be one of the determining factors, and we are starting to see that energy in Northern Ireland could potentially become a barrier. The other issue that has been a barrier is the limited availability of gas. It is great, from our point of view, that the gas network is going to be expanded.

Companies are very sensitive about energy costs. I know that you have had a number of individual companies, as part of Manufacturing NI, and so forth, in here. They talk to us very specifically about what the issues are. They do not want that in the public domain, for a number of reasons. They do not want their parent companies to know the detail of it, particularly; they do not want competitors to know it; and they have concerns about how that is presented in public, due to security and so forth. I can give you an example. I will not name the company, but I want to give you an example of some of the challenges. One business, which has a number of global sites, in Northern Ireland pays €114.9 per megawatt hour. If we look across its sister plants, we see that it is €58.9 in France, €69.9 in Spain and €89 in Italy. Italy is often held up as one of the most comparative regions with Northern Ireland, but, even there, you can see that it is €89 in Italy and €114 in Northern Ireland. Perhaps more of a concern for us is when we compare it with the sister GB site. The cost there is €78.8. So, there are big differentials there for a parent company if it is considering where it is going to put its next investment or expansion.

One area that is of concern for us is the opportunity that is starting to emerge around data centres. They are very energy-intensive projects, but they do not create a lot of jobs. Our investment offering tends to be that we look at the costs of a project, look at the number of jobs it is going to create and negotiate our offering around that. There is a concern about how we will be able to compete in that particular scenario and those sorts of projects if energy costs are the main consideration. I suppose that the balance to that, and how we hope to mitigate that, is the fact that Northern Ireland is still in a very favourable position in terms of selective financial assistance, R&D support and training. So we hope that some of those costs will mitigate on a pure balance sheet sort of scenario.

Alongside electricity prices, businesses have raised other concerns with us. Security of supply is a big issue, particularly for those who need 24/7 operating. What is plan B when Ballylumford closes? There are concerns about that. Grid capacity: a number of companies are looking at renewables, but, even beyond renewables, there are already issues about whether the grid can provide what is needed if a company is considering expansion. Also, there is access for renewables. Increasingly, we are seeing a number of our large users — and, again, reference has been made to it — looking to come off grid, . That has a big impact, because, if they come off grid, there is a smaller number of companies left to pick up the tab.

From our perspective, energy prices and electricity pricing are outside of Invest NI's control, so we have focused our efforts and resources on making sure that companies are as energy efficient as they possibly can be. That is our focus with regard to maintaining their competitiveness. We invest over £12 million over three years in a range of initiatives, which range from technical support with David and the rest of the engineering team to loans and grants. Although we have a number of engineering companies, for example, in Northern Ireland, that would be best practice in energy efficiency, we emphasise that it is a continuous improvement process. So, year on year, we can go in and find more savings that companies can deliver. Invest NI has also invested in the exploration of new technologies. For example, MATRIX has established a sustainable energy horizon panel, and we have supported the establishment of the centre for advanced sustainable energy. That is an industry-driven research centre where we are also funding a collaborative network to explore new energy solutions. So, for example, smart metering and energy storage are some of the areas that we are looking at.

The perception across all businesses in Northern Ireland is that energy prices are too high. However, the actual evidence that we have indicates that, for the smaller users, their rates are quite competitive with our near neighbours. It is really the large users who are having the biggest struggles. Large users are those who have one megawatt or more of peak electricity demand. You will be aware that our structure in Northern Ireland is such that we have a very limited number of large companies within that definition, and we are very keen to keep those that we have and get them to further expand. In some instances, energy costs are going to be an issue there. However, we hope that our broader support can help mitigate in terms of the overall energy costs.

When a company comes to us with a greenfield proposal or an expansion proposal, we look at energy costs as part of their operating costs, and provided that there is job creation as part of that project, we can intervene and put some support in. However, increasingly, if you are looking at energy efficiency, there are no jobs associated with those projects, and we are constrained there in respect of what we can do.

That is a very quick run through. In closing, energy prices are a significant issue for our larger energy users. The extension to the gas pipeline will help, particularly for a number of our key players. A number of our big companies will also continue to explore alternative energies, but grid access and capacity are going to prove a constraint. From the companies' point of view, in terms of managing perceptions, it would be helpful if we could get more transparency around the regulator in respect of some of those pricing issues.

Mr Dunne: Do you hold meetings with the Utility Regulator and try to influence him?

Ms Hill: Yes, we have round-table meetings. We have had a few where we have brought the larger energy users in and brought the regulator along, who was Shane, in that instance. Our chief executive has also met him on a number of occasions to put across the issues that we are facing.

Mr Dunne: We have all been somewhat shocked and very much made aware of the stark costs that industries are faced with here. We have had a number of them here giving us evidence, but one implied that they were talking about £1 million a month for energy. That is very drastic. Right away, we think about what the Government are doing to help those people. If they do not get help, there is a risk that we will lose them, and we will have all the implications of that to live with. So, if there is anything that you can do to help them as a supplement to support them, I think that it is vital that you do that. Is the issue of energy and security of supply a deterrent to attracting large foreign direct investment in Northern Ireland? Are those factors that are brought into play when you are going out there to bring in new business?

Ms Hill: We are very aware of that, but in terms of the support that we can offer alongside jobs, employment and training and so forth, we can mitigate that. So, energy costs may be higher, but we can still offer fairly generous support in other areas. On that basis, they both balance out, or we do our best to ensure that they balance out. For example, with the big investment down at the harbour, which is when DONG came in, energy was potentially a big issue there, and through working with Belfast Harbour, Northern Ireland put a lot of support behind that project. That helped to mitigate the energy costs.

Mr Dunne: It is bound to be a major factor now in relation to bringing in new business and being a place that is attractive or not. It is bound to be on the agenda or checklist of anyone who is talking to you.

Ms Hill: From a positive point of view, most of our success in inward investment has been around financial services and business services and so forth, which are not just as energy intensive as mainstream manufacturing, but we are very clear that we want to keep and grow the manufacturing that we have, so it is a big issue for us.

Mr Dunne: You touched on the fact that you are giving business advice on energy savings and how they can manage their energy systems. Is that part of what you do?

Mr David Bell (Invest NI): Yes. Through a number of our programmes, we are able to go into a company and do a survey of what they are doing.

Mr Dunne: How many people do you have working on such projects?

Mr D Bell: We have six people who are working on direct links with companies and direct advice to companies on a range of issues. It is really about saying, "How do you prioritise your energy use? Where can you make the biggest savings? How much is it going to be? What is the payback?". We provide that to quite a number of companies.

Mr Dunne: OK, and what about the like of Bombardier? We are very much aware of its energy costs and we have met its people and so on. It is looking at generating its own energy. Have you had an input to that?

Ms Hill: Yes, we work closely with them and have in-house experts on anaerobic digestion and biomass who have been heavily involved with Cecil McBurney at Bombardier in taking forward that project. That will be great for Bombardier. The concern is that, if Bombardier comes off grid, there are obvious ramifications for the overall cost of the grid. However, we are in there providing technical support and help.

Mr Dunne: Are you working with other firms that are also looking at alternative supply?

Ms Hill: Yes, because quite a lot of our larger firms would even have their own energy managers in place, but we would still come in and work alongside them, either to look at new technologies or to review what they are proposing and see whether we can provide anything more to them.

Mr Dunne: What about advice on combined heat and power (CHP) plants and so on; is that part of your role?

Mr D Bell: Very much so. Co-generation is a big part of what we advise upon. It is not available or useful for many companies. Unless they are running 24 hours a day, it is not useful. However, we advise on things such as heat recovery to provide energy, electricity generation and things like that. We advise companies on all technologies, as they come on line.

The Deputy Chairperson: Is the advice that you give to existing companies a discussion that you have with people that are thinking of coming here about the range of natural resources and renewables that there are?

Ms Hill: From an investment point of view, we look at the renewable sector as one that we try to attract to Northern Ireland. They would certainly be —

The Deputy Chairperson: No, what I am asking is whether, if you have a manufacturing company that is thinking of coming here, would you try to encourage it to use renewable sources of electricity generation instead of just going onto the grid?

Ms Hill: We would certainly make it aware of the targets that we are trying to achieve, what is happening in the renewables sector and the cost associated with renewables and standard. It will come down to the company's requirements. Some will require 24/7, in which case wind may not be an option. What we can put in there depends on the company's location. It also depends on whether it has a biomass source. We gather all of that evidence beforehand to make sure that we provide the best energy cost proposal.

Mr Douglas: Thank you for your presentation. I do not see it in these papers; it would be good to get a copy of it.

Ms Hill: The introduction? Yes.

Mr Douglas: It was very good. Oh, we have got it anyway.

You mentioned that you do not have any responsibility for energy prices or whatever. At the Tory party conference yesterday, Theresa Villiers talked about setting up an all-party delegation on the economy for Northern Ireland. Is that the sort of thing that you could feed into, to relate to her some of the points that you have made here?

Ms Hill: Yes. For example, when the Green Investment Bank was set up in the UK, we made sure that we got it over here. We got it in front of companies so that they see what they could potentially avail themselves of there. We feed strongly, through the Department, into the Department of Energy and Climate Change policies. We do not have the decision-making power around electricity, but we certainly make sure that the concerns and issues facing business are fed through.

Mrs Overend: We are talking about not only attracting inward investment from large companies but also keeping those that are here. What about Invest Northern Ireland's help, or other help, in promoting energy-from-waste projects? Do you think that there should be more of those? I will let you go on with that, and then come back with more. Do you think that there should be more help for energy-from-waste projects?

Ms Hill: We actually have a couple of people designated to advise on energy from waste. Biomass and energy from waste are a particularly good opportunity for some of our smaller to medium-sized manufacturers in more rural areas. There are a lot of projects in the planning system, so there has been a dramatic change from two years ago to where we are now. People understand the technologies; the technologies are proven, and they are more willing to get involved. So, we provide a lot of advisory support around that. Our technical people go in and help people assess whether the technology that they are going to select will work for them, their feed source and so forth.

Mrs Overend: You talked about the difficulty of people going off grid and that the costs that remain have to be spread among a thinner group. Do you think that there should be a limit to those who are going off grid? How do you think that should be managed?

Ms Hill: From an individual company point of view, that is a commercial decision. A number of companies that want to do that are finding that the costs are very excessive for them. Even though they are off grid, they still have grid charges to pay. We are working with a number of the bigger players to see what that would look like. There will have to be a solution. Too many going off grid would have a significant impact on the remainder. I do not think that it can be done arbitrarily on a one-by-one basis. I think that we are going to have to come up with a response to that possibility.

Mrs Overend: What feeling are you getting from businesses that are going off grid on the costs for connecting to the grid?

Ms Hill: Fairly high. One of our major food companies was in last week, and it has had plans to do that for a very long time, but the costs being quoted are quite excessive. David, did you want add something?

Mr D Bell: I wanted to say something about the help, which relates to what you said earlier. We fund the Carbon Trust from the interest-free loan scheme for many projects all over energy conservation and energy efficiency, and also for the installation of renewable energy systems. It is an interest-free loan scheme up to £400,000, and we have £12 million in that scheme at the moment. We keep adding to it, so it is a big incentive for companies in terms of financing the work that they are doing.

Mr Agnew: Thank you for the information so far. How many large energy users do we have, and how many people do they employ overall?

Ms Hill: With regard to those who are prepared to disclose their energy uses, we think that there are around 35 to 40 companies, and they would be our larger employers. Think for example of the food sector and the large number of jobs involved there. We would be talking in tens of thousands of employees.

Mr Agnew: You said that if there were a newbuild plant, you would be limited in the amount of assistance that you could give for energy efficiency because of the relatively low number of jobs that it would relate to. When you are looking at new investors, it would seem that it could be the difference between their businesses being viable or not in Northern Ireland. It is looking at only the direct impact on jobs rather than the indirect impact. Do you agree with that? If so, would you like to have more flexibility in that regard? What are the restrictions? Time and time again, we hear businesses say that their number one and number two concerns are energy prices, and you say that you are limited in how much support you can give them with regard to energy efficiency. Some of the issues around energy prices are outside our control, the Executive's control and your control. Here is an area where we can impact on energy efficiency, and it seems odd to tie our own hands in that regard.

Ms Hill: Generally, the constraints will come through the state aid scenario rather than a Northern Ireland scenario. Therefore, irrespective of energy usage, when a company comes in, we have probably three key mechanisms of support: selective financial assistance, which is based round employment support; R&D support; and training and development support. The point that I am trying to make is that we cannot help directly with energy costs. However, if someone comes to us and says that they are having problems with their energy costs and asks whether we can assist them, our answer is probably around advice or a low-cost loan. If a company comes to us and says we want to set up in Northern Ireland and these are our operating costs, and energy is included in that, then that will form the basis of our overall calculation in terms of what support we can put in.

Mr Agnew: I think that fairly answers my question. Would it be possible to get more detailed information on the large energy users and the number of jobs that they are responsible for? We are aware of the importance of the issue to them, and we need to quantify their importance to Northern Ireland.

Ms Hill: We can provide what we have, yes.

Mr Dunne: Can I just ask a quick question? If a manufacturer or commercial operator comes to you and wants a study done, do your staff carry out that study, or do you give them a voucher, or do you engage consultants to carry out the work?

Ms Hill: It is a mixture of both. David, for example, is one of the people who does that. It depends very much on capacity and volume.

Mr D Bell: I give advice, and we also engage consultants to do an in-depth study, free of charge, to help people prioritise their energy use and put in effective measures to reduce it. We use both in-house and external experience to allow us to focus on the key issues.

Mr Dunne: The consultant, then, is paid by Invest NI?

Ms Hill: Yes.

Mr Dunne: Does that work fairly well?

Mr D Bell: Yes.

Mr Dunne: Do they give good advice, generally?

Mr D Bell: We scrutinise everything and we ensure that the advice is appropriate, timely, and on a continuous basis.

Mr Dunne: Have you seen effective results?

Mr D Bell: Absolutely. We can demonstrate that through other figures that we can send you.

Mr Dunne: Are businesses out there aware that you are available to do this?

Mr D Bell: There are many businesses — I mean, most — but I am sure that there are people that are not. We have an outreach scheme, whereby we go round. I was in Newry last week; colleagues were in Coleraine. Two weeks ago, I was in Enniskillen, to make sure that the message is getting out to companies to ensure that they can avail themselves of the programmes that we have to help them.

Ms Hill: The other dimension is that councils now have some funding for this under the local economic development measure. We tend to deal with companies with a bill of £30,000 or more, but we have worked with councils under that initiative to ensure that if they feel that they have clusters of companies in their area, they will deliver that sort of support to smaller companies as well.

Mr Dunne: Good. Thank you very much.

Mr D Bell: We have worked with those people to help them put together programmes. We work with the Business Improvement through Environmental Solutions (BITES) programme for the councils around Belfast and the Sustainable Together through Environmental Management (STEM) programme for councils along the border. We help them put programmes in place.

The Deputy Chairperson: According to Manufacturing NI, the Utility Regulator has stated that the strategic energy framework target of 40% renewables by 2020 will add 113% to network costs. Is this something that Invest NI is aware of?

Ms Hill: In terms of the overall cost, no. However, there is certainly a very strong perception in industry that this could potentially lead to those sorts of costs going forward. It is one of the areas

raised when we have the companies in. If we can get more transparency out as to how those costs are built up and how those figures are being generated, companies will have a better understanding of what lies ahead. Most companies are of the view that their energy costs are only going to increase, either because of resources getting tighter or because of the different policy initiatives that are coming through, for the main part, from Europe.

The Deputy Chairperson: Have you raised any of those policy initiatives with the Department of Enterprise, Trade and Investment (DETI)?

Ms Hill: We work very closely with DETI's energy branch. For example, when we have those engagements, they have representatives present. In particular instances, we bring up individual companies to meet the Minister or her officials.

The Deputy Chairperson: Have you sought to make any changes to DETI policy that have not happened yet?

Ms Hill: No. The renewables obligation certificate (ROC) scenario put forward for renewables is very generous in Northern Ireland, and the only challenge that we had — and DETI's policy branch worked with us on it — is when we looked to see whether there was any way that we could come up with a grant scheme for large energy users that would help companies to install equipment that could help reduce costs. I am talking about the larger guys, not the loan fund end of things. The difficulty we had was that you cannot breach state-aid limits. So, we have that in place if someone comes to us, and we can look at that project and see if we want look at a capital grant for them. However, the firm cannot take that and the ROCs. In any of the cases that we have looked at, almost without exception, the ROCs are more beneficial to the company than any sort of grant that we could give up front.

The Deputy Chairperson: In your initial contribution, you said that you had not lost any client companies yet. I think that you said the word "yet" three times. How important is the word "yet" in that?

Ms Hill: I think that it is an issue. We are dealing with a number of companies at the moment which cannot get any security on price for their energy costs. If companies could even know what things will look like two or three years down the road — if they could get that sort of continuity — it would give them some comfort. If energy costs keep spiralling the way they are going, it will become harder and harder for some companies to reinvest. I am less concerned about losing what we have and more concerned about us losing potential new investments.

We are very fortunate that a number of the plants in that scenario are the most efficient plants in their parent operations. The plants here are working very well and are keeping their operating costs to the absolute lowest levels. If energy costs keep creeping up, it will certainly have an impact on whether people will reinvest in Northern Ireland.

The Deputy Chairperson: When representatives of the CBI were here about a fortnight ago, they said that they believe that some companies are still here only because they have been unable to finance a move in the current economic climate. They think that, once things become more favourable and the economy starts to grow and improve, some companies will start to move because of energy costs. Do you agree with those sentiments?

Ms Hill: We do not have any evidence that would support that from our perspective. What we do see is that, because of the other support that we can bring in — employment-related support, R&D support and training support — the energy costs are mitigated to some extent. It is a very fine balancing act, but we do not have any evidence of any companies that are ready to move.

The Deputy Chairperson: Or that are waiting for things to improve before they move.

Ms Hill: No.

The Deputy Chairperson: Is security of supply something that your client companies or the large users are raising with you?

Ms Hill: Yes. It is a big issue. It is part of the rationale for Bombardier looking at its own resource on site. If it is a 24/7 operation, and it has to be 24/7, and the demand is increasing on the grid and the

grid is going to come under stress, companies cannot take the chance of possibly dropping offline for even short periods of time.

The Deputy Chairperson: In terms of the whole issue of budgeting and being able to predict what energy costs are going to be in two, three or four years' time, has Invest NI put forward any proposals to DETI?

Ms Hill: DETI has the same information as we do. We work alongside DETI on how we see that going forward. Our initial push over the past couple of years has been to make sure that people look at alternative sources of energy, particularly renewables. Some of those are cost-effective, and some take a much longer time in payback. From a commercial point of view, that can be a difficult decision for companies. However, we certainly make companies aware about the opportunities for buying ahead in oil, gas and so forth and negotiating deals. There is a level of competition from suppliers that there maybe has not been historically, and the large players will have their own key negotiations with companies and suppliers. However, there are some restrictions about how much of that information they are prepared to share in the public domain.

The Deputy Chairperson: What about trying to avoid price spikes or significant changes? The recent changes in electricity for consumers saw electricity prices rise by almost 18%. Domestic customers want to see more consistent pricing so that they can budget. I presume that that is the same with businesses. Are there any solutions in the form of policy changes that could be brought in to implement that?

Ms Hill: My short answer is no. Policy is very curtailed in what it can do by the regulations and the role of the regulator. Even from an EU point of view, the environmental and energy legislation is very complex and restrictive in what you can and cannot do. Other than making people aware and getting them to try to negotiate and get deals in place, we certainly have not been able to make any recommendations.

Mr Agnew: Very briefly, is the Carbon Trust's £12 million interest-free loan scheme likely to be exhausted? Has the take-up on that been positive?

Ms Hill: It is very heavily subscribed. It is a revolving loan fund. We have £12 million in the pot at the moment, and there are very low levels of bad debt. If you want, it is constantly turning around and around. It is down to energy savings, and we will OK a project provided that it can demonstrate fairly substantial energy savings. We have not had to turn anybody away because of a lack of available funds. Some people have had to wait for some loans to come back in again, but it is a very successful scheme.

Mr Agnew: So the £12 million pot seems to be about right at the moment. I assume that it is kept under review

Ms Hill: Yes.

Mr Agnew: OK. Great.

The Deputy Chairperson: Thanks very much.