NORTHERN IRELAND ELECTRICITY LTD PRICE DETERMINATION

Summary of hearing with Northern Ireland Renewables Industry Group held on 16 July 2013

Background/opening remarks

1. Northern Ireland Renewables Industry Group (NIRIG) is a joint collaboration between the Irish Wind Energy Association, which represents the industry in the island of Ireland, and RenewableUK which represents the renewable sector in the UK. NIRIG's role primarily focuses on knowledge exchange, policy development and consensus on best practice. NIRIG also represents onshore and offshore wind and marine.

2. NIRIG said that it had a very constructive relationship with the energy stakeholders and held bilateral and joint meetings with stakeholders, including Northern Ireland Electricity (NIE), which it considered to be positive and constructive.

Strategic energy framework

3. The Strategic Energy Framework (SEF) provided a very specific target of 40 per cent renewables that required investment in a reliable network to make sure that energy could be exported effectively. A key point relating to the context of price control was the fact that the SEF indicated that extensive investment and electricity-grid improvements must happen if Northern Ireland were to maximize its use of onshore and offshore renewable electricity generation.

4. The cost and benefit assessment to consumers and investors was very much a long-term issue moving towards 2020 and beyond. NIRG required a long-term grid and infrastructure-development strategy which it believed would be difficult to accommodate within a five-year price control. NIRIG considered this to be a challenge for all parties involved.

5. NIRIG believed the 40 per cent target to be technically and economically achievable but there were significant challenges. A key challenge would be developing the necessary infrastructure, onshore and offshore, and including interconnection, to make sure energy could be utilized when it was being generated. The Northern Ireland target had no legal status. It noted that the Republic of Ireland also had a 40 per cent electricity from renewables target. Under Directive 2009/28/EC, the Republic of Ireland was legally obliged to ensure that by 2020, at least 16 per cent of all energy consumed in the state was from renewable sources.

6. NIRIG told us that it would be keen to see that any cost-benefit analysis should incorporate additional specific outputs, for example: the time taken to connect to generation node. It was also important that environmental inputs such as reducing the carbon footprint of the energy system were considered.

7. The regulator had recently approved a £44 million investment under the medium-term plan to take renewable energy generation from 14 to 27 per cent. NIRIG said that while that was to be welcomed, it should not be the benchmark for future investment as it was recognized that this to some extent represented the picking of 'low hanging fruit'.

Consumer bills

8. NIRIG believed that the cost to the consumer of reaching the 40 per cent target was much lower than the widely quoted £1 billion. Splitting out the investment in the additional network capacity in order to accommodate the introduction of greater renewable generation, NIRIG estimated the cost at approximately £360 million (ie excluding non-renewables elements of Fund 3 and any network investment which would be required anyway). This would be the incremental cost from reaching the renewable target. Based on the £360 million estimate, achievement of the 40 per cent target would add about £7 a year to consumer bills.

9. NIRIG said that obviously commodity prices would have the single biggest impact on future prices. The biggest challenge in terms of pricing was trying to determine what would happen in 2020–2030. The challenge was to get across to consumers that the price of electricity would rise whether renewables were utilized or not and the likelihood was that prices would rise faster without the use of renewable energy in the long term. It stressed the interests of future as well as present customers.

Timely decision making/financial commitments

10. NIRIG believed that the approval process within the RP5 proposal (the three-stage process as outlined in Fund 3) could potentially lead to 12 months of decision-making by the Utility Regulator. This timeline would likely be mirrored by NIE. NIRIG considered it to be an onerous methodology which would cause delays and would like to see performance targets regarding turnaround time agreed and put into place.

11. NIRIG was concerned that a three-stage approval process with each stage being approved separately could leave developers with a stranded asset, for example if stages 1 and 2 were approved but not stage 3.

12. NIRIG had concerns about the timeliness of decision-making around the approval of projects to develop renewables. Over the past 18 to 24 months it had experienced considerable delays in the authorization process associated with clusters to the extent that there had been nine wind farms waiting in abeyance, or some 200 MW of generation. Those developments had a limited planning horizon of five years before developers had to commit significant expenditure to keep that planning alive. Recently, these delays were mainly associated with the charging mechanism.

13. NIRIG was concerned that developers had to commit substantial funds both to receive planning permission and in terms of initial payments and deposits to secure their connection. To do that and to get that through the financing regime without a committed firm access quantity was extremely difficult. A situation could arise whereby developers did not want to commit finances without some degree of commitment to connection and firm access and, without the developers' commitment, NIE/SONI might not want to progress a scheme, so a stand-off situation might be reached. NIRIG said that what was needed was a system that allowed business as usual, where developments were pre-agreed on a large scale and then approved to that forward plan

Reporter

14. NIRIG was not against the use of a Reporter but if one was employed it would need to have demonstrable benefits in fast-tracking approvals. The Reporter should not just add a further layer of administration and lead to a slower approval process.

15. NIRIG told us that if there was a clear terms of reference in place, and the role of the Reporter demonstrated improved efficiency resulting in a faster turnaround process, it would welcome the role.

16. NIRIG saw a potential benefit with the Reporter sitting close to NIE ensuring that information was provided in the format that was requested by the regulator and that it could increase transparency.

Coordination and optimization

17. The grid infrastructure in Northern Ireland required heavy transmission infrastructure development which could potentially take up to ten years from concept to commissioning. The interdependence of projects was critical as the alternative—an independent assessment of individual projects—could lead to situations whereby the failure to deliver one project could jeopardize the overall plan if not placed within a broader context. NIRIG believed that part of this problem related to the length of the current price control term (five years), which did not sit comfortably with developers. The Great Britain model with an eight-year horizon and mid-term assessment possibly represented a better alternative.

Renewable integration development project

18. NIRIG believed that, going back as far as 2007, NIE had been putting in place plans to meet the renewable target, and NIRIG believed that NIE was doing what it could to enable the renewable energy generated to be exported.

19. NIRIG was frustrated with the process delays in terms of constructing the new assets required to connect generation assets but understood that these delays were not necessarily due to NIE.

20. NIRIG believed that offshore and tidal generation would become relevant by 2020 and that there were wider benefits to the country from introducing a higher proportion of renewable-energy generation.

Policy framework

21. NIRIG wanted to see adequate priority given to renewable generation to enable the achievement of government and EU targets.

22. When assessing the application of statutory duties by stakeholders involved in RP5, the broader policy framework needed to be considered in the context of RP5. There were key directives at a European level that were pertinent and should be considered in the full context of RP5. The first one was the IME 3 Directive. The other key piece of European legislation was the Renewables Directive and priority access for renewables.

23. NIRIG told us that to ensure a reliable network, a long-term development strategy, setting out a structure against which constituent parts were delivered, needed to be agreed and signed off. This would ensure a seamless transition from one price control to another.

SONI

24. NIRIG considered SONI's role in the development of the network to be critical. One of the key things that SONI delivered was a forecast of firm access quantities and potential timescales for delivery.

25. NIRIG was not concerned about the responsibility for planning of the transmission system being transferred from NIE to SONI. There would be a need for greater communication between NIE and SONI but it had no doubt this would be successfully maintained.

Competition

26. NIRIG would welcome the introduction of competition into new areas and felt it would keep costs down as well as help with timescales for delivery.

27. NIRIG told us that one area of competition it saw as a tangible benefit to the industry would be contestability of network connections, so the developers could manage costs and timetables. NIRIG welcomed competition where it increased effectiveness and timeliness of decision making and project development.

28. There might also be room for competition and contestability for additional distribution licence holders.

Stability of regulatory regime

29. NIRIG told us that it was very important for the Northern Ireland market to be seen as an attractive environment to internal organizations and external companies to invest in. NIRIG believed a stable regulatory regime would be required to promote investment along with timely and efficient delivery of key infrastructure.

30. While NIRIG welcomed the £44 million medium-term plan for renewable energy, it was concerned about the emphasis the regulatory regime placed on it. There was general agreement that £44 million would deliver up to 750 MW firm access and potentially a further 300 MW from non-firm access. However, with no further projects coming through, there was no degree of certainty that the non-firm projects would become firm. Even the 1,000 MW fell well short of the 40 per cent renewable target.

31. In relation to the Department of Enterprise, Trade and Investment transposing the Renewable Energy Sources (RES) directive into local law, it would like some legislative targets put into place that encouraged t the facilitation of these targets. Investors required a stable and predictable regulatory regime. There had been potential on the island of Ireland for retrospective changes to rules on generation and connection and this was not helpful.

32. NIRIG had no issue with the consultation process but was concerned that there would be significant changes in policy or approach from one five-year control period to another.

33. The critical element in terms of determination of price control conditions was that RP5 would integrate into or facilitate a longer-term strategic framework so that there would be a progression towards a long-term strategy in terms of infrastructure development and refurbishment.

34. NIRIG would like a relatively seamless transition from one price control to another to allow investment to progress without any significant delay.