

**NIRIG response to the Northern Ireland Electricity
Transmission and Distribution Price Controls 2012-2017 – RP5 Draft
Determination**

1. Introduction

The Northern Ireland Renewables Industry Group (NIRIG) is a joint collaboration between the Irish Wind Energy Association and RenewableUK. NIRIG represents the views of the large and small scale renewable energy industry in Northern Ireland, providing a conduit for knowledge exchange, policy development support and consensus on best practice between all stakeholders in renewable energy.

NIRIG welcomes the opportunity to respond to the Northern Ireland Electricity Transmission and Distribution Price Controls 2012-2017 – RP5 Draft Determination. We appreciate the workshop that was held to facilitate the sharing of information between NIAUR and the renewable energy industry and hope that we will be able to continue dialogue on what is a core issue for the facilitation of renewables in Northern Ireland.

NIRIG has serious concerns on the delays in which the determination has been delivered. RP5 was due to be implemented with authorised network spend on 1st April 2012. New dates indicate it will not happen until October 2012 with issues resolved by end of year according to the Regulator's last statement, although there is no guarantee this will happen. We would urge that any future delays are minimised.

2. Overview

The information provided in this response is based on NIRIG's understanding of the key issues that the draft determination needs to consider: the need for strategic infrastructural development for long term growth and consumer security and the accommodation of national renewable energy targets.

NIRIG would recommend that the regulatory framework and decision-making within RP5 take account of the long-term needs of consumers and investors and focus on methodologies that enable the development of infrastructure to provide specific results, rather than focusing on short-term cost-efficiency.

At the core of the Northern Ireland Executive's Strategic Energy Framework (SEF) targets is 40% of electricity consumption from renewable energy sources by 2020. It is crucial that the draft determination facilitates this target. This will need to happen both through sufficient investment in renewables and a reliable 'backbone' network to ensure energy can be exported when it is generated. In addition, the upgrade of the distribution network is crucial to the successful delivery of small scale renewables projects.

Planning for increased renewable electricity penetration needs to happen in a timely manner and all sides must have confidence in the authorisation process for renewables projects. Infrastructure development is a long lead time process and work needs to progress quickly to minimise likely delays associated with planning and construction issues.

NIRIG would also like to note that while EU energy policies are concerned with a reduction in energy demand through increased energy efficiency, this will not necessarily mean a reduced demand for electricity and may actually lead to an increased demand e.g. provision of electric heating, electrified transport. Network development plans and management must take this into account.

In addition, it is clear that there is a wide gap between NIE proposals and NIAUR'S draft determination. NIRIG would urge that NIE and NIAUR reach a settlement which is acceptable to all. Not to do so could lead to a protracted dispute resolution process, diverting resources from 'business as usual' and sending out signals that Northern Ireland does not offer a stable regulatory regime. There needs to be an emphasis on meeting targeted deadlines. Decisions to invest in Northern Ireland depend on these critical determinations and if timelines are not being met then investment may go elsewhere.

3. Policy considerations

The Strategic Energy Framework sets out a vision of the scale of investment required for Northern Ireland's electricity infrastructure:

“Extensive investment in electricity grid improvements must happen if Northern Ireland is to maximise its use of onshore and offshore renewable electricity resources. In addition, a robust and stable electricity transmission

system is an essential prerequisite for a competitive electricity market and is critical to a modern economy.”

NIRIG believes that this draft determination needs to take into account Northern Ireland’s policy objectives and NIE’s short-term, medium term and Renewables Integration Development Plans (RIDP). The final elements of NIE T&D’s medium term plan have expected completion dates of 2015/16; in total these are expected to deliver approximately 730MW of firm access for renewable generation. A number of elements of the medium term plan are already behind schedule, most notably the work on cluster substations and there is a need to progress these.

As well as the need to advance medium term and long term works there is also the requirement for the regulator to support the implementation of the 2009 RES-E Directive. The directive states that member states shall develop transmission infrastructure to accommodate the future development of electricity generation from renewable energy sources. It also requires that system operators provide renewable generators with a reasonable indicative timetable for grid connection. Any regulatory uncertainty on delivery of grid assets detailed in the NIE RP5 submission would frustrate the system operator’s ability to provide connection timelines for renewable generators in connection offers.

4. Regulatory Framework

The Regulatory Framework in Northern Ireland appears to be primarily focused on short term cost-efficiency. It resembles the framework previously used by Ofgem to regulate both the gas and electricity industries, and which was successful in driving efficiencies in privatised network companies. However, Ofgem concluded that their process was designed for a specific environment and needed to change to *“encourage network companies to deliver a sustainable energy sector and provide value for money.”*¹

Ofgem have moved to a different framework in order to facilitate the development of a sustainable energy sector, given the significant requirement for network investment and innovation required. NIRIG would recommend that NIAUR take into account the

¹ ‘RIIO: A new way to regulate energy networks’, Ofgem 2010

changing context of infrastructure development and focus on facilitating a sustainable energy sector. NIRIG believes that the current DETI consultation on the duties and obligations of NIAUR and DETI may facilitate this and would urge NIAUR to anticipate these developments in its determination.

5. Methodology used

NIAUR intends to introduce a cost benefit analysis to control capital investment in RP5. NIRIG would be concerned that this approach will not encourage a long-term strategic view of investment.

The most important consideration in the draft determination should be the requirements for actual delivery of improved network performance and defined outputs. The major network outputs that are explicitly identified in the RP5 draft determination primarily relate to cost and number of customer minutes lost. Other incentives for opex efficiency, customer minutes lost, network losses and a Guaranteed Standard are also outlined, but the focus appears to be on controlling the inputs in terms of asset investment decisions.

Competitive pricing will also be most effectively achieved through the introduction of competition into new areas where possible. The contestability of connections will help provide a check on connection costs and we feel the introduction of this process should be prioritised by the Utility Regulator.

6. Investment climate

It is in everyone's interest that Northern Ireland is seen to be as attractive to investment as possible. This requires a stable regulatory regime and timely and efficient delivery of key infrastructure. Uncertainty around infrastructure maintenance and development could repel investment at a time when political efforts are underway to make Northern Ireland a more attractive place to locate new business and expand existing industry.

7. Renewables investment and certainty

Northern Ireland has the opportunity to deliver an indigenous energy portfolio but grid development is required to facilitate this. NIRIG members and their financial investors are ready to invest capital in Northern Ireland in order to decarbonise and modernise the existing generation fleet. However, without the grid infrastructure in place to facilitate this, there is a risk that Northern Ireland will miss out on significant sums of private-sector investment.

As NIRIG stated in its response to the published document on the Capital Investment Requirements for the fifth Regulatory Period on 18 July 2011, certainty will also be improved by the implementing of mitigation measures identified as part of the Facilitation of Renewables process. The 2009 RES-E Directive states that member states should take the necessary measures to minimise the curtailment of renewable generation. NIRIG would strongly support that any final RP5 decision provides the system operators with the resources and capital requirements to identify and implement these mitigation measures.

NIRIG is concerned that the proposed financial rate of return on renewable energy projects will attract a lower return than conventional network projects (5.2% rather than 6.32%). We feel this is a strong disincentive for renewable energy connection to the system for NIE and would support a return commensurate with other network investments.

8. Timely planning and authorisation processes

Planning for increased renewable electricity penetration needs to happen in a timely manner. Infrastructure development is a long lead time process and work needs to progress quickly to minimise the likely delays associated with planning and construction issues.

Timelines

NIRIG welcomes the ring-fencing of £306m for the development of renewables projects over the course of RP5. However, there is some concern that the process for approval of these monies on a project-by-project basis does not offer certainty for the timely delivery of such infrastructure, and this will have considerable knock-on effects


on renewables development. This process, if adopted, should only be for larger projects and some simpler methodology should exist for small discrete projects

NIRIG strongly believes that the regulatory approval process needs to be timely and offer certainty to developers. In order for this to happen the following principles must be met:

- RP5 proposals must allow for network investments in long lead time projects to enable development investment
- Approval of renewable projects on a project by project basis should not increase delays or push connections further back
- Resources must be available to consider a number of projects in parallel through the process so that there will be no material delay to one project over others
- The introduction of the Reporter must not increase costs, increase delays or reduce the number of project approvals

The table below demonstrates the proposed approval process as outlined. NIRIG's understanding is that the NIAUR may take at least three months to make a decision at each stage of the process. This is of considerable concern to NIRIG as such timeframes could easily reach 9 months, without taking into account equivalent processes within NIE. NIRIG recommends that, to increase investor certainty, the Utility Regulator should set explicit performance targets with regards to turn-around times for regulatory approvals.

Figure 1: Regulatory approval timelines - NIAUR presentation 7th June 2012

Turnaround times for regulatory approval 

Process to be followed will be based on:

NIE	UREG
NIE Request approval for pre-construction costs	
	UREG undertake technical assessment and cost benefit analysis (CBA)
NIE prepare outline design and obtain planning permission etc.	
NIE prepare tender documents and undertake procurement and finalise wayleaves etc.	UREG technical assessment of final scheme
NIE submit final cost details to UREG	
	UREG review CBA
	Final Approval by UREG board

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NIRIG understands that the Utility Regulator will consult on a regulatory approval process for individual renewables projects later this year. This would appear to be micro management of the DNO and NIRIG is concerned regarding additional costs involved and that the Regulator has the internal resource capacity to conduct these reviews.

Authorisation process

The Regulator has requested the appointment of a Reporter to interface between NIE and the Regulator as part of RP5 monitoring. There is no indication of when that appointment will happen or how it will influence timescales of project approval.

NIRIG does not believe that the Reporter will improve either the speed or efficiency of the project approval process and would recommend that the priority be on ensuring that existing regulatory approval is more efficient and timely.

NIRIG is aware that other utilities, such as Great Britain water utilities have previously used this approach of employing a reporter and have found it to be of no benefit².

In addition, if NIAUR appoints a Reporter and support staff then NIE will also be required to mirror this appointment within NIE, increasing costs on both sides.

Cluster sub-stations and line upgrades

The medium term plan for grid upgrades is included within RP5 work in order to allow renewables to connect into the grid. There are currently delays specifically around financial authorisation of cluster substations and line upgrades. In particular, there is no clear indication that the remaining cluster substations will be authorised or when this might happen. These substations are central to connection of wind farms.

NIRIG believes that the RP5 Price Control proposals should give an indication of how those delays will be removed and a plan to accelerate the speed of approvals which NIRIG considers is central to the connection of wind farms onto the NI grid.

NIRIG would be very keen to see work advanced on major circuits which will allow firm capacity on the network to be increased, these include the Kells-Coleraine circuit, Tamnamore-Omagh circuit and completion of the Tamnamore Phase 2 project.

NIE's original consultation paper on cluster substation charging arrangements was issued on the 16th March 2010. A decision paper detailing a proposed charging methodology was then issued by the Utility Regulator in April 2011³. A further consultation is now planned to justify the need for an individual cluster, despite the principle being widely understood and accepted.

Transmission infrastructure and RIDP

It is critical that a vision of the future is maintained regarding transmission development. An overview must be kept on the configuration and operability of the

² http://www.ofwat.gov.uk/regulating/compliance/prs_in1202regcompliance.pdf

³ Utility Regulator (2011), Decision Paper on the Charges for Connecting Groups of Generators (Clustering) to the Northern Ireland Distribution System

final transmission infrastructure. The current system with a radial feed to the one largest generating unit causes operational concern at times. It would not be prudent to allow a system to develop which connects further major generation volumes on radial feeds without adequate resupply.

The Renewables Integration Development Project (RIDP) is a joint initiative between NIE, EirGrid and SONI in order to identify areas where the grid needs to be strengthened to optimise renewable project connections in the North and North West of Ireland. This scheme will help facilitate both jurisdictions to meet their respective 2020 renewables targets. The project involves key areas for intervention and moving towards making planning applications to ensure consented grid enhancements are achieved. There are significant delays to this scheme and there has been no authorisation to spend in relation to the grid development as yet. The Regulator has deferred spend on this project to the next price control period (RP6) on the basis that it is contingent on the N-S interconnector, but this project needs to be planned and anticipated now – requiring appropriate allowance in the current period.

Small- and medium-scale renewables

NIRIG is particularly concerned about the failure to allow the asset replacement on the 11kV network (NIE requested £127m for replacement overhead lines - allowance proposed as £0m by NIAUR) which is essential for the successful delivery and connection of a range of renewable technologies, including small to medium sized wind turbines and anaerobic digestion plants. NIE has 3.5 times the amount of this category of network than comparative regions of the UK and the absence of investment is of considerable concern.

The Minister for the Department of Enterprise Trade and Investment has made it clear in the NI Executive-endorsed Strategic Energy Framework (SEF) that these technologies will significantly contribute to the Government 2020 renewable energy target.

NIRIG is also concerned that the lack of routine investment in this category may adversely impact on NIE's resource capacity in the field of overhead works.

9. Timely asset replacement

NIRIG is concerned that the Regulator's proposals do not facilitate 'business as usual' with growth. Other regulatory bodies in the UK and Ireland have supported asset replacement as a necessary strategy to support anticipated increasing network stress and renewable electricity uptake. We feel that sufficient timely investment is essential to support the economy, maintain infrastructure quality and prevent increased overloads, network flicker and power disturbances— especially against the background of 38 storms in the last 5 years.

If the network is not improved in continuous regulatory periods then it will require upgrade in the next period along with additional required replacement of degraded assets through the existing 5 years. This will ultimately cause additional cost to the consumer in the longer term and lead to the increased potential of an unreliable system in the near term. Certainty in system performance is critical and a proactive approach should be taken.

Minutes lost per customer should not be a statistical method for system rigidity (as intimated at a stakeholder workshop by UREGNI) but a measurement of how NIE have successfully achieved set targets and maintained the system over the past two regulatory periods.

NIRIG is very concerned that the difference in the gross allowance requested by NIE and the sum proposed by NIAUR is so significant. The uptake of renewable electricity onto the NI grid system requires that the network has a sufficient level of investment to manage network risks, such as safety, quality of supply and resilience. These factors impact existing windfarm developments and will significantly impact the uptake of new wind farms onto the system. Failure of assets already over 40 years old, which are more likely to break down causing increased levels of line-drop, disconnection and network outages for repairs, will increase wind farm constraints and this will have a major impact on revenue, particularly against a background of increasing curtailment due to lack of firm network capacity.

NIRIG is particularly concerned that the NIAUR proposed allowances will severely impact the asset replacement programme associated with major substations (allowance reduced by £72m) and detrimentally impact the replacement and maintenance of lines and cables (allowance reduced by £100m). We are also

concerned that investment in load related equipment, such as new substations and network connections, will not be able to proceed and this will significantly constrain the connection of new wind farms and limit the firm connection capacity available.

10. Resources

NIRIG is also concerned that the allowance against NIE resources has not been approved. Applications for grid connection have been rising steadily and contact with NIE connections personnel has become increasingly difficult. Given that the current level of connections is likely to increase going forward, the level of interface resource between developers and NIE is grossly inadequate.

NIRIG feels that the NIAUR response to the NIE proposals demonstrate a clear lack of anticipation in the number and volume of renewables applications which NIE will be required to manage.

11. Conclusion

NIRIG believes that Northern Ireland must show reliability and stability in its utility market. NIE must be able to deliver a safe, reliable and efficient system in order to benefit the Northern Ireland consumer and facilitate Strategic Energy Framework targets. Rural electrification in the 1950s and 1960s was a success, delivering a reliable energy supply. NIE must now be challenged to deliver a system that incorporates a diverse generation mix to include renewable generation in excess of 40% of consumption, as stated to accommodate national targets and legislation. NIE must be allowed to expand the system to accommodate new generation and demand in all areas of Northern Ireland as the SEF requires. The regulator must ensure NIE is suitably financed (in line with protocol) to complete these elements.

The determination also suggests that the regulator is now making the decisions on system need to supply safety, reliability and development of the grid structure to the consumer. Does this now put full responsibility on the regulator if the systems experience unsafe, unreliable and lack of development conditions?

Finally, NIRIG would note that the gap between NIE proposals and the regulator's stance is wide. We would urge both parties to reach a settlement acceptable to all. Diverse positions will lead to a protracted dispute resolution process and delay in decision making. This will divert resources from "business as usual" within NIE and the regulator. Renewable energy projects are likely to suffer as a consequence due to the inevitable delays in the approval process.

We thank you for the opportunity to comment on this consultation and look forward to continuing our work with the Utility Regulator and NIE.

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