

Enabling security of supply and a low carbon future

Working with government and industry, we want to make sure that consumers enjoy a secure energy and water supply. We want to facilitate investment that supports the journey to a low carbon future.

Addressing security of supply

The Single Electricity Market continues to ensure that there is sufficient electricity supply to power Northern Ireland's homes and businesses. A new transportation agreement, providing ongoing direct access to the gas market in Great Britain, was finalised.

The Single Electricity Market

The Single Electricity Market (SEM) has a critical role in safeguarding electricity generation needs for Northern Ireland. The SEM's Capacity Remuneration Mechanism (CRM) is designed to procure enough capacity to meet the required security of supply standard, helping to ensure security of supply at a competitive cost.

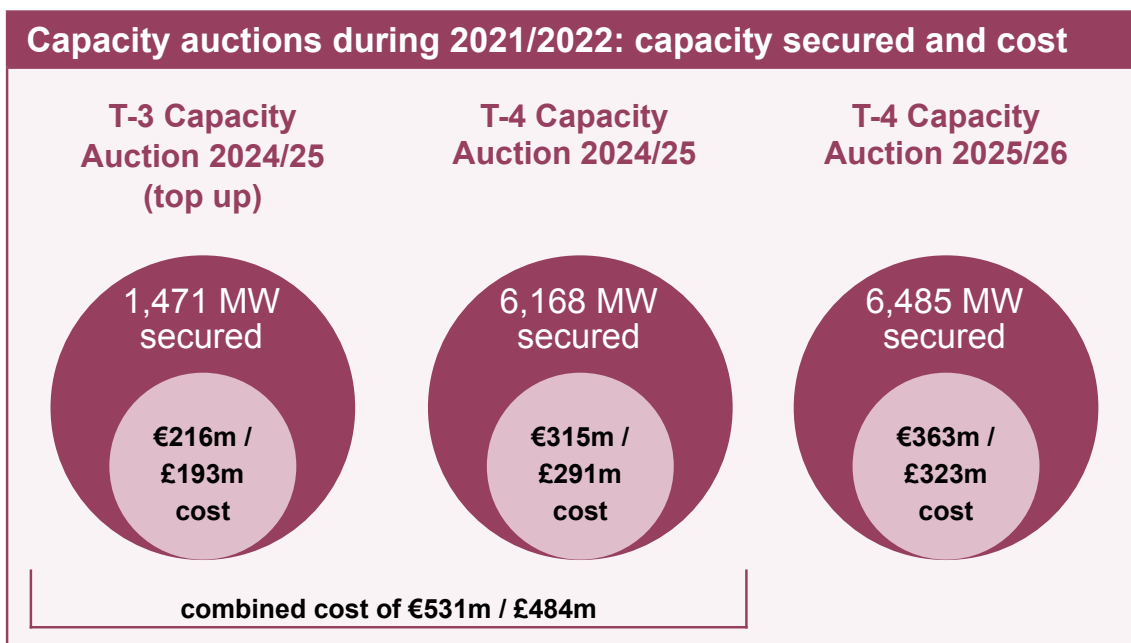
The CRM was part of revised SEM arrangements that went live on 1 October 2018, and replaced the capacity payment mechanism under the previous arrangements. Capacity providers sell qualified capacity to the market, based on generation capacity required in a future capacity year. This takes place in the form of capacity auctions. Auctions normally take place between one and four years ahead of delivery. Capacity providers who are successful in a capacity auction receive a regular capacity payment. This payment assists with funding generation capacity. The level of capacity required is assessed by the TSOs in advance of the auction.

Holders of a capacity contract are expected to be available to provide their agreed generation volumes or load reductions (in the case of demand side units) when



required at times of system stress or high demand. If a generator is unable to do this, they risk being exposed to substantial charges.

In 2022, two capacity auctions took place - (1) a T-3 “top up” capacity auction (to secure further capacity for three years hence) took place in January, and (2) a T-4 capacity auction (to secure further capacity for four years hence) took place in March.



The gas transportation agreement

In 1996, Premier Transmission Limited (PTL) and GNI (UK) Limited (GNI (UK)) entered into a gas transportation agreement. For a period of 25 years, the agreement allowed for reservation of sufficient capacity of 8.08 million standard cubic meters per day at 56 bar in the pipeline between Moffat and Twynholm, which is owned and operated by GNI (UK). Together with the capacity in the Scotland-Northern Ireland Pipeline (owned and operated by PTL), PTL could provide this capacity as a seamless service for gas shippers from Moffat to Northern Ireland, thereby directly linking the gas market with Great Britain and avoiding additional entry and exit charges.

In 2021, PTL and GNI (UK) proposed to enter into a new transportation agreement which allows for PTL’s capacity reservation to be extended for a fixed 15-year term to 30 September 2036 on fair commercial terms. We assessed and approved this new agreement, which we consider to be in the best interests of Northern Ireland consumers. It will secure continued access to the gas market in Great Britain and will promote security of supply at an economic cost.

Working with government to promote the journey to a low carbon future

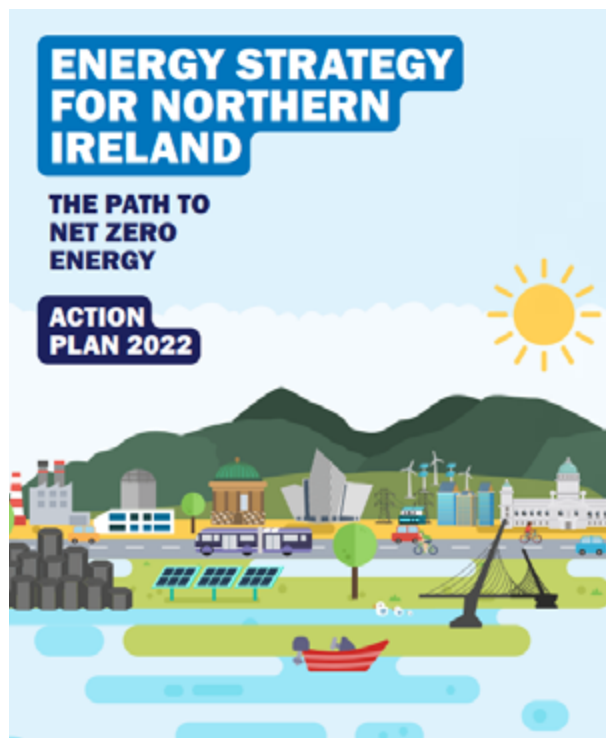
The publication of the Northern Ireland Energy Strategy was a significant milestone for decarbonisation. As well as developing the new strategy, we are working with DfE on the strategy action plan's implementation.

Much of our energy work is within the context of a policy framework set by DfE. We have been supporting DfE in the development of a new energy strategy for Northern Ireland. This included our involvement in thematic working groups set up by DfE to provide direction to the development of the energy strategy. We also provided our perspective and analysis on the various areas (such as on informing policy papers), including the cost impacts on consumers of the different policy options being considered by DfE.


DfE published the 'Energy Strategy – the Path to Net Zero energy' - in December 2021. The energy strategy set out a pathway for energy to 2030 that will aim to deliver a vision of net zero carbon and affordable energy by 2050. An associated action plan, setting out 22 actions for the first year of the strategy's implementation, was published in January 2022.

Several of the actions in the first year of the strategy require our involvement and we will work closely with DfE.

Having exceeded Northern Ireland's target of 40% electricity to come from renewable sources by 2020, the Northern Ireland Renewables Obligation (NIRO) has laid a firm foundation for the new energy strategy and a Climate Change Bill for Northern Ireland.



We contribute to the development of the energy efficiency section of the new strategy, including future support for energy efficiency. The strategy action plan included a commitment to introduce a pilot retrofit scheme in 2022. The scheme will take an area-based approach to delivery, and will support investment in improved energy efficiency measures in domestic buildings. It will also include access, where relevant, to low carbon heating support. We continue to work with DfE on future support for energy efficiency, and have had discussions with DfE on energy efficiency models elsewhere, the role of energy companies and our role.



We have continued engage with DfE on their transposition of the Clean Energy Package into legislation. DfE is continuing to prioritise those issues that are consistent with the Northern Ireland Protocol and impact the wholesale market. Work has also progressed on implementing remaining provisions that could affect the wholesale market.

In a separate aspect to our work on renewables support, we worked to provide the Northern Ireland Audit Office (NIAO) with information and support for the completion of their investigation into to the NIRO. Subsequently, we worked with DfE to provide information and analysis for the Public Accounts Committee (PAC) on the completion of their report in September 2021. While the NIAO report contained no recommendations regarding our administration of the NIRO, it did recommend that the DfE carry out work on the rates of return achieved by renewable generators in Northern Ireland. We have continued to work with DfE and Ofgem, including assessing evidence in relation to rate of return estimates for renewable generators. The PAC also made no recommendations on our administration of the NIRO. However, the PAC report included a number of recommendations that will be taken into consideration when developing any new systems to support the new renewable electricity target in energy strategy.

Facilitating low carbon innovation

We have been facilitating the journey to a low carbon future by supporting investment in electric vehicles and facilitating engagement on biomethane injection into the gas network. We also granted a number of energy storage licences to aid security of supply and allow participation in the all-island wholesale market, and continue to facilitate demand side.

During the last year, we continued to support the integration of low carbon technology on the electricity network, which will be necessary for the delivery of net zero over the long-term. In July 2021, we approved additional funding for low carbon technology through a mid-term review of for the NIE Networks RP6 Price Control. Our mid-term review provides a further fixed allowance of £825,000 for general upgrades and an allowance of £439 for each electric vehicle (EV) (at home) fast charger connected to the network in the second half of the price control. The total additional funding will be dependent on the number of EVs connected and reported to NIE Networks. The additional funding is expected to be around £8 million by the end of RP6.

We have also been working with NIE Networks on its proposals for additional investment through a 'Green Recovery' programme. This work funds investment in electricity distribution network in advance of need: to develop the supply chain in face of increasing investment; and, reduce the risk that low carbon technology connections will be delayed while network reinforcement is delivered. This work led to the approval of additional allowances of £41 million in April 2022 to remove older transformers from the network, upgrade sub-stations and replace low capacity conductors on overhead lines. All of the work to the network will improve its ability to adapt to the significant uptake of electric vehicles across Northern Ireland.

In February 2022, we approved additional funding for NIE Networks of £1.8 million to support EV managed charging trials. During this trial, the network operator will actively manage customers' use of EV charging in order to maximise network capacity. This will provide an understanding of how managed charging might be used to control peak loads on the network and mitigate the need for investment over the longer-term.

Investment in low carbon technology



**Green Recovery
programme
£41 million**



**Electric Vehicle
charging trial
£1.8 million**



**Network upgrades
£8 million**

As we continue with our RP7 price control review, it is likely that new mechanisms will be required to deal with the uncertainty over the rate at which low carbon technology will be adopted, and the impact this will have on the network.

Following the development, in 2020/2021, of a base case for the facilitation of biomethane injection into the gas network, we have continued to engage with the gas operators on relevant changes to the regulatory framework.

We hosted a biomethane industry briefing in March 2022, which provided an update on this project. Work in this area will continue over the next year, with the implementation of the required regulatory framework changes.

Finally, we issued a call for evidence for our review of supply licences to facilitate retail market innovation in July 2021. Our review is aimed at identifying whether aspects of the existing supply licence framework inhibit or prevent suppliers from innovating. The context for this review is key, and the transition to a low carbon future will transform how consumers use energy and engage with the energy industry.

In terms of facilitating storage with a view to ensuring security of supply, we have granted two licences to 50MW battery storage facilities this year, having granted another two during 2020/2021. We have also commenced a programme of work to explore an enduring arrangement for Demand Side Units to be in receipt of energy payments in the wholesale energy market. This is to incentivise availability of this technology when demand reduction is required.

