RenewableNI response to Utility Regulator's consultation on proposed electricity transmission licence for Transmission Investment LirIC Limited

Executive Summary

RenewableNI (RNI) is the voice of the renewable electricity industry. Through the development of policy, best practice and public communications, we represent those engaged in wind, solar and battery storage development. Our members make up a large majority of the renewable industry supply chain in Northern Ireland.

RNI welcomes the opportunity to respond to the Utility Regulator's (UR) consultation on a proposed transmission licence being granted to Transmission Investment's (TI) Lir Interconnector (LirIC) project and sets out its position in detail below.

RNI has concerns over the rationale of the two-step approach proposed by the UR, namely questioning the ongoing policy gap relating to interconnection, which has meant that a licence will be granted without, by the UR's own admission "no established policy in Northern Ireland on the need for further interconnection".

Furthermore, to ensure transparency and secure vital industry input, RNI also stresses that further consultation should be undertaken during Step 2, should the two step approach be adopted.

Given the current pressing issue of persistently high levels of constraints faced by the NI renewable electricity industry (detailed explanation as to the severity of this issue is provided below), there are strong concerns that further interconnection of this magnitude (700MW is a significant project comparative to the size of the NI market) could (i) prove contradictory to achieving 80 by 30 as it will disincentivise the rapid acceleration of domestic renewable deployment needed; and (ii) adversely impact consumers who may have to pay for both interconnector (through revenue support for LirIC) and compensation for dispatch down (when implemented).

Policy Context

The previous UK Government set in legislation a requirement for a 'net zero' economy by 2050[1]. As the leader in decarbonisation, the power sector will have to achieve zero-carbon first, with heat and transport expected to significantly rely on electrification as the main way of cutting emissions. Furthermore, the previous regime made a commitment to

[1] UK becomes first major economy to pass net zero emissions law - GOV.UK (www.gov.uk)

T +44(0) 7837 291 699
E steven.agnew@RenewableNI.com
W www.RenewableNI.com
Arthur House
41 Arthur Street
Belfast, BT1 4GB

decarbonising the electricity system by 2035[2] and there is no caveat in the UK ambition excluding NI.

The new Labour government, committed to bringing forward the UK target for zero carbon electricity to 2030[3] and have now reiterated this commitment since taking power[4], saying it will hold fast to the 2030 Clean Power Mission and nationally determined contributions. The new government's plans include quadrupling offshore wind capacity to 55GW, tripling solar power to 50GW, and doubling onshore wind capacity to 35GW, signalling an increasingly ambitious approach to the roll-out of renewables as the decade progresses.

RNI successfully advocated for an ambitious 80% by 2030 renewable electricity target (80 by 30), which is now a legal requirement of our climate change legislation and will contribute to the UK government meeting its own 2050 net zero pledge.

The NI Executive has multiple priorities to tackle, but RNI contends that the climate emergency necessitates a cross-departmental prioritisation of delivery of our renewable energy and net zero targets. The Utility Regulator (Support for Decarbonisation) Bill is currently being consulted on. This legislation[5] will allow the UR to support the Department for the Economy (DfE) in fulfilling its obligations under the Climate Change Act (Northern Ireland) 2022, which include delivering 80% renewable electricity by 2030 and its longer-term net zero commitments.

Whilst acknowledging that this legislation does not provide the UR with an explicit statutory duty to facilitate decarbonisation, unlike GB regulator Ofgem, RNI would strongly urge the UR, as its powers and scope of its influence extend through this forthcoming legislation, to ensure that its assessment and decision-making processes (both for interconnection and all future projects) are underpinned by a dedicated commitment to decarbonisation, net zero and the accelerated deployment of renewable electricity that the energy transition inevitably necessitates.

RNI sees 2024, as we approach the decade mid-point, as an important juncture in the energy transition and a crucial moment at which to galvanise all key stakeholders into adopting a renewed and ambitious focus to tackle the climate emergency, maximise delivery of indigenous, renewable energy and achieve net zero.

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[2] Plans unveiled to decarbonise UK power system by 2035 - GOV.UK (www.gov.uk)
[3] Pg. 6, Clean Power Mission (labour.org.uk)
[4] Clean Energy Superpower Mission - Hansard - UK Parliament
[5] Utility Regulator (Support for Decarbonisation Preparation) Bill consultation (nidirect.gov.uk)

T +44(0) 7837 291 699
E steven.agnew@RenewableNI.com
W www.RenewableNI.com
Arthur House
41 Arthur Street
Belfast, BT1 4GB

NI Renewable Electricity Industry – Dispatch Down and Interconnection

Dispatch Down has become a persistent and increasingly pressing crisis in NI. Dispatch Down refers to a reduction of a renewable generator's export volumes compared to their availability. For example, where a windfarm could have been generating but for whatever reason has been instructed to produce less electricity than it can or even to shut down entirely.

This issue in NI is currently being driven primarily by constraints. This refers to times when the grid is too congested at certain locations to facilitate any higher levels of renewable electricity. NI (especially the North West) is effectively now a constraints zone. Constraint levels have been averaging above 20% since the middle of 2023 (July) and in April one of our members reported the average level Dispatch Down for their windfarms as 45% (6% curtailment, 39% constraints) and a maximum level of 51% (6% curtailment, 45% constraints).

This presents a significant issue for the renewable electricity industry for many reasons. The Dispatch Down of wind represents a waste of indigenously generated renewable electricity. It results in a greater reliance on fossil fuel generators, a major loss of revenue for renewable generators, and risks the economic viability of their existing investments. The longer-term impact of this is then to deter future investment in needed green energy infrastructure. The cumulative effect of this is endangering delivery of our legally binding 80% electricity from renewable sources by 2030 target.

There are various main causes we have identified[6] but consistently high levels of imports across the Moyle interconnector into the congested NI grid is one of the most significant factors. At present, NI is a net importer even when NI wind farms are being turned down.

If Dispatch Down continues at these extremely elevated levels, this presents a serious risk to the economic viability of both existing and new investments. The majority of new investments which do proceed are likely to be through the proposed renewable electricity support scheme. The anticipated lost revenue of such high levels of constraints is a risk for developers and will be factored in to bid prices, resulting in higher costs for the consumer. Compensation payable

[6] Including the delay in the much needed second North-South interconnector, levels of minimum generation continuing to be relatively high, and transmission outages when network upgrades were taking place (however constraints levels have now continued well past these specific events).

T +44(0) 7837 291 699
E steven.agnew@RenewableNI.com
W www.RenewableNI.com
Arthur House
41 Arthur Street
Belfast, BT1 4GB

and backdated under Article 13(7) of EU Regulation 2019/943 (for dispatch down) will have to ultimately be paid for by the NI consumer.

There is a likelihood that further interconnection between GB and NI will drive up constraints and, until this problem is fully resolved, will result in higher prices for consumers due to compensation payments, undermining the needed public support for accelerated renewable energy deployment and achievement of the legally binding target of 80% renewable energy consumption by 2030.

RNI response

Q1 Do respondents have any objections to the UR's proposal to grant a transmission licence (which includes the terms and conditions set out in a draft of the proposed licence) to TI? If so, please set out the basis and reasons for any such objection.

RNI has no specific objections to the UR's proposal to grant a transmission licence to TI, but has concerns about doing so at this stage as part of a two-step approach. RNI notes that the UR acknowledges that the "grant of a licence does not confirm that UR considers there to be a need or room in the market for this project, nor does it indicate … that UR considers the project to be viable".

The LirIC project will have a significant impact on the future of renewable electricity trading and on the single electricity market on the Island of Ireland over the next decade and there is a policy lacuna when it comes to interconnection. RNI does question why the significant body of work that the technical power system and economic needs case assessment for further interconnection represents has not been taken in advance of the UR making any decisions on granting of transmission licences to interconnector projects.

RNI notes that the UR states it will grant the licence in order to fulfil its primary obligation under Article 12(1) of the Electricity Order 2003, which is to promote effective competition in the market to best "protect the interests of consumers of electricity". RNI is entirely in support of competition in the electricity transmission and supply markets, but does not agree that the UR can state unequivocally that granting a licence to the LirIC project will protect the interests of consumers.

The reasons for this are twofold. First, the UR, as it acknowledges has yet to undertake the socio-economic cost assessment (in Step 2) which would identify and quantify the consumer impact, and second if the project secures revenue support, but the constraints' crisis is worsened by further interconnection, then the NI consumer will be in the unenviable position of having to pay doubly, both for dispatch down compensation (when Article 13(7) of the Clean Energy Package is implemented) and then again to subsidise non-domestically

T +44(0) 7837 291 699
E steven.agnew@RenewableNI.com
W www.RenewableNI.com
Arthur House
41 Arthur Street
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generated renewables on the interconnector (if, as expected NI continues to be a net importer).

Q2 Do respondents agree with the UR's proposed two-step approach? Please provide any supporting information.

RNI notes that the most significant body of work will be undertaken by the UR (in conjunction with the Department for the Economy (DfE)) during Step 2. The UR states at point 2.20 in this consultation document that it "may consult in the future on our findings" as they relate to the needs case assessment for interconnection and the appropriateness of a Cap and Floor regime. In the interests of transparency, to allow opportunity for scrutiny and to ensure protection for consumers, RNI contends that the UR must consult again at this stage.

Given that at this juncture the UR will have undertaken a more detailed assessment of the potential need for further interconnection, it will be vital to once more consult comprehensively and robustly with the renewable electricity industry to ascertain what effects such additional interconnection will have on the high levels of constraints experienced by renewable generators on the system[7] and the ultimate impact this has on achieving the NI Executive's 2030 renewable electricity target.

Q3 What are respondents' views pertaining to consumer impact, or any other impact, in granting a licence without specified operational revenue regime licence conditions? Please provide further information which lends support to the views expressed.

As detailed in the initial sections of our response, RNI would draw attention to the acute issue of constraints in NI and the pressing need for a detailed and rigorous assessment of the impact future levels of interconnection could exert on this problem. All indications currently suggest that NI will continue to be a net importer well into the next decade. This could potentially mean that when the LirIC project is operational, that NI will be importing electricity and continuing to consistently turn down domestic generation.

Although the argument may be proposed that this provides a short term cost benefit to the consumer through the importation of cheaper renewable electricity, RNI would counter that, ultimately, the NI consumer will be negatively impacted in the long-term as they will ultimately have to compensate dispatch down (when Article 13(7) of the Clean Energy Package is implemented) and most crucially failing to maximise the full range of socio-

[7] Expectations are that NI will continue to be a net importer up to 2030 and beyond, so it is unlikely these levels will have altered by the time the UR concludes its Step 2 assessment.

T +44(0) 7837 291 699
E steven.agnew@RenewableNI.com
W www.RenewableNI.com
Arthur House
41 Arthur Street
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economic and green growth benefits which developing our own flourishing indigenous renewables' industry offers NI. RNI does not, therefore, accept the UR's assertion that the granting of the licence without revenue support comes at no cost to the consumer.

Q4 What are respondents' views on the risks and benefits of the proposed approach?

As stated above, RNI sees certain, clear risks in separating the process, whereby a determination is made on the granting of a transmission licence without assessing the need for the proposed interconnection and of a Cap and Floor regime. RNI questions why both processes could not have been done in tandem and why the UR would not adopt the "one-step approach" in which it consults on the full licence, as it did for the Moyle Interconnector (detailed at 2.8 of the consultation document).

RNI errs on the side of caution in this response, as by the UR's own acknowledgment this two-step approach results in the granting of a transmission licence prior to undertaking a significant body of research, analysis and forecasting. In light of the marked policy gap when it comes to further interconnection, RNI is not in a position to fully identify all of the attendant risks that granting a licence, without first conducting a needs case assessment, may ultimately present.

RNI would reiterate that if Step 2 will identify *inter alia* how the LirIC will trade in the SEM, how it will intersect with the developing energy system over the next decade and what the actual impact on electricity consumers will be, then it is critical that these findings are fully shared with the renewable electricity industry (and all other relevant stakeholders), and at this stage, that another comprehensive consultation is conducted.

RNI has already highlighted the potential risks (as far as possible, and acknowledging that we too would benefit from assessing the future findings of the UR and DfE) for the renewable electricity industry and the NI consumer. If constraints continue to be a substantial problem for NI, then the bill for consumers, who will ultimately pay through compensation for dispatch down, will ultimately grow. This cost, if it is then coupled with the revenue support for LirIC (also being underpinned by the NI consumer), would likely negate any possible short-term benefit from cheaper imported electricity.

Moreover, imported electricity ultimately will not count towards the NI Executive's 80 by 30 target, will disincentivise local renewables' development and, crucially, deprives the consumer of the longer-term cost savings and security of supply which cheaper domestically generated energy would deliver.

Q5 Are there any additional risks or benefits regarding further interconnection? If so, please provide supporting evidence.

T +44(0) 7837 291 699
E steven.agnew@RenewableNI.com
W www.RenewableNI.com
Arthur House
41 Arthur Street
Belfast, BT1 4GB

RNI has already detailed the various potential risks regarding further interconnection and the need for robust analysis of the needs case for the LirIC project. RNI would reiterate that a 700MW interconnector is a very significant infrastructure asset, and stress that the body of work required to understand both the constraints it may face, in addition to the impact it may have on NI's ongoing constraints' issue, is a complex and wide-ranging piece of work that not only should, but must, involve industry, in order to be effective and not be overly rushed (this is also reflected in the response to Q6 below).

Q6 Do respondents have any views regarding the anticipated timelines outlined?

The document states that the UR and DfE will work in partnership to establish the needs case assessment for interconnection and that this body of work is anticipated to finalise in March 2025. However, there is a caveat, that this deadline is dependent on both the scale of work to be undertaken, and subject to agreement with DfE. RNI would not only argue that this is vague and, from experience, deadlines on comparable workstreams have invariably slipped, but also question why the UR would propose an indicative timeline in any consultation document, if it must first be agreed with DfE.

Considering the vital importance of interconnection policy, RNI wants to ensure that the assessment undertaken by the UR and DfE is comprehensive and takes into account the many relevant factors, including, but not limited to, how constraints can be reduced through the use of battery energy storage, the future development of Long Duration Energy Storage, and the potential development of future markets such as green hydrogen.

RNI would once again stress that it is vital to consult at step 2, and although currently there is no timeline provided for this and irrespective of the time required to do so, that the UR should again consult with industry (and all relevant stakeholders) in order to ensure transparency, accountability and protection for NI electricity consumers.

Furthermore, the energy system is a complex environment, and planning for and facilitating net zero (and determining interconnection's role in this), will require a cross-departmental approach and strong engagement with the transmission operator.

Q8 What are the specific issues of further interconnection that are most likely to need specific regulation?

RNI has not identified any issues likely to require specific regulation, but would again take the opportunity to advocate for an informed and evidenced future interconnection policy. This must be one which is the result of detailed assessment of the impact which interconnection, over the next decade, will have on the SEM, renewable energy trading and accelerating the build-out of NI's domestic renewables' industry to meet the 80% renewable electricity by 2030.

T +44(0) 7837 291 699
E steven.agnew@RenewableNI.com
W www.RenewableNI.com
Arthur House
41 Arthur Street
Belfast, BT1 4GB

Q9 Do respondents have any views on the proposed approach in relation to a potential regulated Cap and Floor operating revenue regime?

RNI notes that as part of its workstream in determining if a cap and floor is appropriate for NI consumers that at 4.18 of the consultation document the UR proposes to conduct "in-depth consultations with stakeholders (including DfE, regional government, Consumer Council etc.)". This does not clearly exclude stakeholders such as RNI or broader consultation with industry, but RNI would again exhort the UR to ensure that the renewable electricity industry is fully involved in consultation on the likely welfare impact on consumers and appropriateness of revenue support for the LirIC project.

As RNI has stressed with frequency in this response, there must not be a focus solely on the cost of electricity paid for by consumers and whether in the short-term imported electricity is cheaper. Industry's involvement is vital to inform the true future cost which will be payable by consumers if the acute constraints' crisis continues and the compensation due under Article 13(7) of the Clean Energy Package (ultimately underpinned by NI consumers) increases.

As the UR acknowledges at 4.21 of the consultation document, in assessment of the cap and floor regime, Ofgem had a minded to position not to offer revenue support to LirIC based upon negative total welfare impact for GB consumers who underpin the cap and floor regime.

Given that the NI consumer will ultimately foot the bill for any revenue support LirIC receives, it is critical that the UR conduct the most robust analysis possible of the appropriateness of any such regime, and as has been detailed throughout this response, such analysis is impossible without industry consultation as to how and to what degree interconnection will exacerbate the issue of constraints and, ultimately, add further to future NI consumer costs.

T +44(0) 7837 291 699
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W www.RenewableNI.com
Arthur House
41 Arthur Street
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