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CBI NORTHERN IRELAND RESPONSE TO UTILITY REGULATOR CONSULTATION ON AGGREGATED GENERATOR UNITS AND DEMAND SIDE UNITS LICENSING ARRANGEMENTS

Introduction

The CBI is the UK's leading business organisation, speaking for some 190,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

The CBI welcomes the opportunity to respond to the Utility Regulator's consultation on Aggregated Generator Units (AGU) and Demand Side Units (DSU) Licensing Arrangements.

Comments on the consultation

- Within a background context of high energy costs for our Large Energy Users (LEUs), as was detailed in the Regulator's benchmarking report of March 2013, we published our own *Roadmap to lower electricity costs for LEUs* in September 2013
- A key facet of the roadmap was a call for the Department of Enterprise, Trade and Investment and the Utility Regulator to allow for all aggregated supply/generator units to be bid into the pool and consideration of how aggregated Demand Side Units (DSU's) might also play an important role in reducing overall half hourly pool costs, through avoidance of calling of expensive plant. Both options would also help minimise the impact of constraint costs/and the impending security of supply issues (NOTE: The full roadmap is in the Annex below)
- The proposals in this consultation are, therefore, something that industry welcomes – albeit with some caveats outlined below
- As we outlined in the CBI Northern Ireland roadmap, 'many LEUs often already have standby generation and also the ability to load shed. Incentivising the use of AGU's and or DSU's may at time make a significant contribution to avoiding the triggering of constraint costs, reducing costs overall to consumers, whilst rewarding LEUs for using the equipment might help reduce their overall energy cost'
- It is however a concern at how long it has taken for the proposals to be published, particularly in the context of businesses in the Republic of Ireland having already replaced winter load shedding with DSU bids thus giving businesses south of the border, who can manage their profile, an advantage over their counterparts in Northern Ireland. Within the overall framework of the Single Electricity Market (SEM) it is important that Northern Ireland does not lag the Republic in this, and indeed other, way(s) as outlined
- In a strategic sense, it is important that the Utility Regulator seeks to pro-actively address barriers to Northern Irish customers being able to participate in the SEM on an equal basis. Bearing in mind the Regulator's own Forward Work Plan for 2014-15 committed to ensuring participation of AGUs or DSUs by the end of September, we would strongly encourage the



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Regulator at close of the consultation to reconfirm this date, in order that Aggregators and LEUs can make appropriate arrangements in advance of the winter months, when the greatest opportunities for delivering value all round exists

- The matter being consulted on is one such barrier to equal SEM participation and the matters pertaining to licensing should therefore be resolved and enacted speedily after the close of the consultation (albeit that we are conscious of the challenges presented by this on pages six and seven of the consultation). This should also include ensuring that those existing operators who have entered into Regulatory Agreements are not prevented from continuing to facilitate demand side participation whilst new licensing arrangements are finalised. The consultation notes that 'a more robust and sustainable regulatory framework is required'. This is, undoubtedly, important – but it should not hold back the ability of existing Generator Aggregators who have a Regulatory Agreement with the Regulator from continuing their current facilitating role. Indeed, they should be further actively encouraged in that regard
- Given that the Regulator is also currently proposing a Short Term Active Response (STAR) scheme for Northern Ireland, it is critical that both it and this consultation on AGUs and DSUs are aligned in terms of their impacts and outcomes. While the STAR proposals are something that industry is keen to assess, particularly in respect of ongoing security of supply concerns, it is important that it doesn't discourage businesses from being involved in the AGU or DSU processes. There is a danger that the STAR scheme, whilst providing benefits to LEUs, would actually increase costs for others at a time when we should be looking to make energy costs more competitive for industry in the round

CBI Northern Ireland
September 2014

APPENDIX

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A ROADMAP TO LOWER ELECTRICITY COSTS FOR LARGE ENERGY USERS

Background

Consistently over the years Northern Ireland has proven an unattractive location for FDI businesses with high energy costs to invest, while the Republic of Ireland (ROI) in particular proving more attractive. Given there is only one all island market for generation of electricity concerns exist that the costing structure for allocation of Transmission and Distribution costs, along with other cost burdens imposed as a result of policies on renewables and energy efficiency, and Public Service Obligation cost are fundamentally at odds with best practice in the rest of Europe.

This view is reinforced by the findings in the recent Utility Regulator's (UR) benchmarking report (March 2013) where NI was found to have some of the highest energy costs in Europe for Large Energy users (LEU's) while the domestic sector has some of the lowest costs in Europe.

Whilst the Executive is committed to growing our private sector, it would appear our energy policies are in direct conflict with this objective with high energy costs not only deterring new inward investment opportunities, but also threatening the on-going viability of existing LEUs in Northern Ireland.

LEUs are also concerned from a security of supply perspective as a result of decommissioning of an existing power station in NI without there being adequate interconnector capacity to enable the shortfall to be met from the most efficient options – from ROI due to the lack of a second North South interconnector and from Great Britain through the restricted capacity on the Moyle interconnector.

This paper seeks to set out areas of concern that give rise to LEU'S uncompetitive energy cost structure. CBI Northern Ireland believes it is essential that DETI/UR sets out a roadmap with regard to how the issue of uncompetitive electricity prices to LEUs in particular will be addressed so as to provide clarity and certainty over the direction of future costs to existing businesses.

We recognise that both short and medium term actions are required. However we also recognise such a review is timely as it will enable alignment of NI policy on cost burdens and cost allocation for Transmission and Distributions to be aligned with the development of the European integrated energy market proposals.

In the paragraphs below we highlight the key issues which need to be addressed.

Single Electricity Market costs:

- **Constraint costs** – Critical infrastructure (such as the proposed second North – South Interconnector) are needed to reduce unnecessary or avoidable costs which contribute to high constraint costs (alongside trading mechanisms on interconnectors with GB to reduce the need to constrain off wind). The strategic importance of the second north/south electricity interconnector and its contribution to improving security of supply and reducing costs for all consumers must be reflected in the planning approval process, and must be supported at the highest political level, north and south. Undergrounding of this second interconnector is not a viable economic option as it would lead to an increase in costs.

Planning approval required by 2014 – Planning Authorities

- **Capacity charges** – The authorities need to ensure capacity charges do not over-reward generators, or encourage inappropriate new capacity. With some major capacity dropping out in 2015 this might be an opportunity to review the capacity payment pot.

Review within next 6-12 months – SEM Committee

- **Bidding Aggregated Supply side units/ demand side reduction into the pool** – One option open to minimise the impact of constraint costs/ and the impending security of supply issues would be to allow Aggregated supply side units (AGUs) to be bid into the pool. Many LEU's have standby generation and incentivising their use may avoid the triggering of constraint costs, reducing costs overall, whilst rewarding LEUs for using the equipment might help reduce their overall energy cost. Clarity is required around how this might more widely achieved - we understand some AGUs do already operate in the market.

The option could be further extended to bidding demand side reduction into the pool, which is developing in the ROI. Thus aggregated demand side units (DSU) reduction could attract capacity payments for providing the capability to reduce system demand and would also, when called upon to shed load, reduce the overall price of the pool as more expensive peaking plant, used to strike the half hour pool prices, would be called less often – more and better information is required by customers to maximise the potential of demand side units. Current ambiguities around legislative issues must be resolved between DETI/UR – we believe we are unable to proceed with DSU application in Northern Ireland as current arrangements mean a DSU cannot be licensed.

Clarification required by DETI/UR – within 3 months with aim of having a more active market place by mid-2014. NB Legislation may be required.

Government/Regulation policy:

- **Moyle Interconnector** - Restoration of the Moyle interconnector to full capacity is expected to bring enhanced trading opportunities and should result in the short/medium

term a reduction in generating costs and constraint costs – an early assessment of the short term and longer term benefits (and costs) of restoring the interconnector should be undertaken.

Review within the next four months - UR

- **Extension of the gas network** – the westward extension of the gas network needs to be pursued with urgency by DETI/UR. The NI Executive must manage the risk of increasing transmission charges for all gas consumers, as we recognise that postalisation of new transmission capital expenditure is likely to impact on existing gas users.

Press ahead with network extension – UR/DETI

- **Public Service Obligation (PSO) charges** – The Regulator (UR) to re-sculpt PSO charges to ensure that the price customer's pay reflect the benefits they receive. It is essential that LEUs in NI are put on an equal footing with their European competitors ie they are not paying for initiatives the benefits of which fall to the domestic sector.

UR to review with PSO's restructured by August 2014

- **Environmental levies** (incl ROCs and CCL) – these are exceptionally high in NI for LEUs compared with the ROI. In addition LEUs are paying twice to deliver the same outcome. The CCL charge to "encourage energy efficiency" is borne only by the non-domestic sector, whilst also having to bear the cost of ROCs.
 - Renewables must be developed at least cost, with a strategic approach to achieving 2020 targets. DETI need to review current incentives, and we must ensure that LEUs are not paying disproportionately high charges.
 - Government should consider whether it is feasible to give a credit in respect of CCL, to offset the double charging effect of ROCs and CCL.

Review to be completed within 6 months - DETI

- **Network Charges** - The structure and allocation of Network charges via Transmission and Distribution Use of System tariffs needs to be reviewed urgently by the UR to ensure that they can be aligned with the rest of the EU – this should be done as part of the development of regional energy markets required under EU directives– a short study must be commissioned to identify how costs are currently identified and allocated in both ROI and NI and assess the implications of any changes – such a study should include a review of other charge/levies and how they are allocated

Target date for commissioning study October 2013 – UR with emerging recommendations implemented no later than September 2014

More detailed evidence to support these recommendations are provided in the CBI NI response to the Utility Regulator's price comparison report published in March 2013.