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**4<sup>th</sup> November 2015**

**Caspar Swales,**  
Head of Economics and Efficiencies (Finance and Network Assets),  
Utility Regulator,  
Queens House,  
14 Queen Street,  
Belfast BT1 6ED.

**RE: Consultation on the Utility Regulator's approach to NIE Networks' RP6 price control**

Dear Mr Swales,

The Electricity Association of Ireland (EAI) welcomes the opportunity to comment on the above and appreciates the provision by the Utility Regulator (UR) of a workshop on its content. EAI is the representative body for the electricity sector on the island of Ireland whose members represent over 90% of generation and supply and all distribution activities within the SEM area.

The Association broadly supports the general approach detailed in the Consultation Paper. However, in the context of the document and comments made in respect of innovation at the workshop on 8<sup>th</sup> October, EAI offers the following contribution:

**1. Strategic Policy Framework**

We note the reference in the Paper to the Strategic Energy Framework, currently undergoing a mid-term review. We would caution against taking an overly narrow and short-term perspective as to how this framework might develop and its consequent implications for electricity networks, RP6 and the broader energy system.

Northern Ireland's energy policy is constructed within the framework of UK and EU energy policy. RP6 will extend to 2024 which is beyond the midpoint from today of the already agreed EU 2030 energy and climate framework. This assumes an EU-wide average contribution of 43% from renewable sources to electricity generation in the context of a 27% target for final energy consumption. The EU Council has also agreed a 40% cut in greenhouse gas emissions, to include a 30% reduction in the "non-ETS" sectors, primarily heating and transport. It is anticipated energy savings will make a major contribution to these reductions. However, it is also anticipated that the electrification of heating and

transport will increase in importance as an emission reduction measure. EAI does not anticipate a significant change in this basic outlook (particularly in relation to electrification) should the UK decide to leave the EU, given confirmed Government policy on climate change.

Deferral of specific actions in relation to renewables and electrification is clearly a policy option, although the later action is initiated to meet imposed targets the greater the possibility of higher overall costs for compliance within Northern Ireland. Notwithstanding such a position, EAI would caution that insufficient investment in electricity networks will inhibit action in respect of the above measures even when determined appropriate and, consequently, recommends that an anticipatory perspective be adopted in respect of the overarching policy framework by the UR in respect of RP6.

## **2. Delivering Innovation**

EAI notes the duty on the UR to *“to promote research into, and the development and use of, new techniques by or on behalf of persons authorised by a licence to generate, supply, distribute or participate in the transmission of electricity”*. Consequently, we are surprised at the UR’s apparent reluctance to support and/or encourage NIE Networks to innovate and the view expressed in the Paper and reiterated at the workshop that *“the bar will be set at a very high level”* in respect of funding approval for innovation. We would view the criteria the UR proposes to use to assess applications for innovative measures better reflect those applicable to routine investment rather than those that carry inherent risk.

EAI’s perception is that this approach is in stark contrast to that taken in GB to innovation. Consider, for example that network innovation in GB began in earnest with the introduction of the Low Carbon Network Fund (LCNF) in 2010, which established a £500 million fund for electricity distribution networks to trial innovation projects. Innovation funding streams have been expanded across all the networks under the RIIO framework, which has established innovation as a key output on which company performance is determined.

Projects delivered by the LCNF fund have demonstrated potential for active network management, industrial and commercial demand response, and embedded storage, dynamic time of use tariffs and smart management of EV charging. All of these have great potential to deliver real benefits to electricity consumers, particularly at a time when the demands on the electricity network are changing rapidly as distributed generation becomes more pervasive across the network.

In light of this, the EAI would encourage the UR to consider the merits of innovation through a longer-sighted lens, with much less emphasis placed on the immediate short-term costs of a standard investment-type project approach. We would encourage the UR to afford NIE Networks a reasonable opportunity, backed by funding, to undertake trials and/or research so that it can at least keep up (or even just attempt to catch up) with the rest of the DNOs.

As can be demonstrated elsewhere, the attractiveness of the Northern Ireland economy for new investment and sustainable job creation is significantly dependent on an advanced electricity network which will not be realised efficiently absent appropriate localised innovation. Failure to adapt the network in the face of the rapidly changing requirements being placed on it, could impose long-term harm (and cost) on future electricity customers.

I look forward to your response to these comments.

Please do not hesitate to contact me should you require further clarification in respect of our input.

Yours sincerely,

A handwritten signature in dark ink, reading "Owen Wilson". The signature is fluid and cursive, with the first name "Owen" and the last name "Wilson" clearly distinguishable.

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Owen Wilson,  
CEO  
Electricity Association of Ireland.