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Kevin Shil,
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Belfast BT1 6ER

Ref: NIAUR - Development of a 5 year Corporate Strategy,
Consultation on Key Issues

Dear Kevin,

I attach ESB International (ESBI) response to the above consultation.

Kind regards

Claire Kierans
Market Strategy Manager,
Independent Generation,
ESB International



**ESBI RESPONSE
DEVELOPMENT OF 5 YEAR STRATEGY
CONSULTATION ON KEY ISSUES.**

Introduction

This response is submitted by ESB International on behalf of Coolkeeragh ESB Ltd. ESBI appreciates the opportunity to comment on these important regulatory parameters and we have no objection to all or part of it being published by the Regulatory Authorities (RAs).

This response comments on the specific questions posed on Regulatory Authorities (RAs) paper.

We would like to draw your attention to the following;

The consultation relates to water, gas and electricity regulation. The structure of the document is occasionally confusing and it is difficult to ascertain if an issue relates to gas or electricity or water. We respectfully suggest that it may be more comprehensible if the specific sectors were separated into separate chapters. The Regulators operates at different levels in each of the 3 sectors. It is also interacts with other departments. It would helpful to ESBI to understand the relationships with these departments and the extent to which NIAUR can influence them.

The electricity sector in Northern Ireland faces many challenges over the coming decade with the increase in the penetration of renewables, whilst still ensuring a competitive market for investors and the lowest possible price for customers. Careful consideration must be given to these complex issues.

NIAUR have a number of live consultations in the areas of sustainability and the retail market, until concrete decisions are made in relation to these issues much of the information contained in this consultation is supposition.

We are aware that NIAUR work closely with the Commission for Energy Regulation (CER) in the Republic of Ireland under the SEM. We would welcome a joint approach to the Corporate Strategy in relation to the issues around the further development of the All Island electricity market.

Question 1: Are there other significant challenges which NIAUR ought to have reflected in Chapter 3.1?

ESBI agree that the primary challenges facing Northern Ireland electricity are sustainability and environmental issues. Specifically renewables and in particular wind) can contribute to addressing these primary challenges.

ESBI would welcome the opportunity for further discussion on how they could co-operate with NIAUR to bring about a greater penetration of renewables in Northern Ireland.

Question 2: Are there other significant opportunities which NIAUR ought to have reflected in Chapter 3.1?

As previously stated, we would welcome a harmonised joint approach from NIAUR and CER in relation to the issues around the further development of the All Island electricity market., particularly for the planning, licensing process and payment incentives for renewable.

Question 3 & 4: Are there additional significant “context issues” and/or “issues within context issues” which NIAUR ought to have reflected in Chapter 3?

3.2.1 States - “At the same time there is a need to maintain as much downward pressure on business utility costs for economic development reasons”. It is not clear what influence the Regulator can have on rising commodity prices

3.2 (i) Goes on to say - “Our principal objective in electricity is to protect consumers interests and in gas to promote the efficient, economic and co-ordinated gas industry” We find this statement regarding electricity to be incomplete and draw your attention to the description of NIAUR statutory duties contained in Annex 1, Relevant Excerpt from Energy order 2003, Objectives of Regulation of Electricity.

“The principle objective of the Department and Authority in carrying out their respective electricity functions is to protect the interests of consumers of electricity...whenever appropriate by promoting effective competition between persons engaged in commercial activities connected with the generation, transmission or supply of electricity.”

Section 3.2 (ii): “All-Island” energy developments

ESBI believes that this section is of great importance. The successful implementation of the Single Electricity Market in 1st November 2007 has brought about market synchronisation however there are further ways to enhance how the two markets operate as one.

Currently, the ESB and NIE operate two different business processes for dealing with the domestic and new connection market. Clearly, this is uneconomic and acts as a barrier to entry for competition. Efforts should be made to harmonise the transmission and distribution business processes and systems. Additionally, the present differential in payments for renewables, RoCs vs. Feed-in-tariffs, is inefficient. Harmonisation of these payments would make investment in renewables more transparent and fair. It would also ensure that windfarms are developed where it is strategically beneficial instead of where it is simply financially viable.

Gas Market development: Section 3.2(vii) NIAUR states that it is their statutory duty to promote the development of natural gas as per the Energy Order 2003. Further in section 2(d) the paper refers to the "benefits that may be obtained from the further roll-out of natural gas in NI" as being a given, and that "It is a policy priority that we [NIAUR] engage with Government and stakeholders to examine the feasibility and options to accelerate the roll-out of gas to the domestic sector" and "consideration should be given to further extension of the gas transmission network that could bring gas to new parts of Northern Ireland". It is taken as a given that all efforts to encourage consumers to switch to gas should be made where the gas pipeline is already located close to the end users property as this will increase the revenue generated from an existing asset thereby reducing unit costs to all. However it is suggested that stringent economic criteria should be firmly set in stone in relation to any possible investment in new pipework laying to ensure that customers in other areas are not effectively subsidising new connections. Such a regime might include a defined relatively high percentage level of usage that needs to be actually signed up to before any pipework is actually installed. Further if after the pipework has been installed and the defined level of usage do not come to reality; the network owner should bear this risk and not existing end users in NI.

Question 5: Are there other significant “wholesale” issues which NIAUR ought to have reflected in Chapter 4?

Fuel Mix: The paper outlines a situation where in the future NI will be in the main dependent on renewables (mainly wind and hydro) and gas for its electricity requirements. Given that renewables require back-up from fossil fuel plant there is a real concern about the lack of diversity in the fuel mix in NI. This concern is further highlighted by a similar position in the ROI. It is suggested that NIAUR should proactively examine ways to widen the fuel mix in NI so as not to leave it totally dependent on gas as a fossil fuel.

(i) a primary driver for Wholesale (and thus end user) electricity prices is the cost of fuel (predominantly gas) purchased by the generators in the SEM. Currently the SEM dictates that the price bid into the SEM market by generators must reflect current market prices regardless of whether the generator has bought gas better or worse than this previously. If there is a desire to reduce wholesale electricity prices a consideration could be given to altering the SEM bidding rule so as to set the use of current gas prices as a cap of SEM bid prices, but if the generator has previously bought gas at a better price than this, it would be allowed to bid in a lower SEM price to reflect this. This is likely to bring benefits to electricity consumers while protecting end users.

(ii) Another wholesale issue is to re-examine incentives to oil and gas exploration companies to encourage them to explore off the coast of Ireland. Having access to gas close to home, given proper regulation of such entities, or the manner in which they operate, should bring economic benefits to the Island of Ireland given the reduced distance to market (and thus reduced transportation tariffs) as well as bring huge security of supply benefits.

Question 6: Are there other significant “network” issues which NIAUR ought to have reflected in Chapter 4?

Smart Metering: There are many strong arguments for the introduction of smart metering in any market, but it is highly prudent to fully analyse and test such arguments to ensure they hold true in a particular market so the benefits are proven before any substantial investment is undertaken. As such NIAUR are encouraged to

not just perform a "strategic investigation into the use of smart meters" but also to actually implement pilot programs in both the gas, electricity and water markets, so as to be armed as soon as possible with real local data on which to make better decisions as to future policy direction.

Access to the electricity network: Given the stated ambitions of the UK Government in relation to renewable energy, it is suggested that it may be more appropriate to give renewable generators a preferred status in relation to gaining access to the electricity grid as opposed to having a policy of ensuring "renewable generation can be equitably accommodated on the electricity networks" as stated in the consultation paper.

Cost of Carbon: Section 2(a) of the paper suggests that "Increasingly there will likely to be pressure to "price-in" the full costs of carbon emissions, not just for coal products use, but also for gas and heating oil products use also". It is our understanding that under the SEM generators must bid in the full cost of carbon today.

Question 7: Are there other significant “retail” issues which NIAUR ought to have reflected in Chapter 4?

ESBI would like to comment on the issue of consultation process in relation to retail, and in particular, the NIE retail tariff. We are of the view that there is a general lack of published consultative information on past tariff setting and insufficient time given to address consultations. For example, we recently received this year's NIE retail tariffs decision paper during the second week in September, where these tariffs were due to take effect from the 1st October.

ESBI believe a full, open and timely consultative framework for setting NIE retail tariffs would add significant value to the transparency of tariff consultations.

Question 8: NIAUR would welcome early views from respondents on the urgency, importance and thus prioritisation of strategic goals and work priorities.

ESBI believe that the following is are of particular importance in the development of the 5 year Corporate Strategy, (in no particular order);

- Integration of transmission and distribution business processes
- Implement pilot programs and collaborative spec functionality for smart metering
- Harmonisation of the planning and licensing process for generators
- Alignment of incentive payments for renewables – RoCs vs. Feed-in tariffs
- Incentivisation fast-response back-up generation for wind
- Pro-active approach to network development – from an All-Island perspective
- Investigation of the effect of energy efficiency supplier obligations on entry into the electricity retail market