



## **RESPONSE TO THE CONSULTATION ON THE POSSIBLE CANCELLATION OF GENERATING UNIT AGREEMENTS IN NORTHERN IRELAND**

Manufacturing Northern Ireland welcome the opportunity to respond to this consultation.

As with most consultations in this area, it is difficult to fully understand the impact of proposals in the absence of our own detailed technical knowledge so we largely rely on the expertise within Regulators Office to ensure that consumers best interests are represented - particularly in this case given the specific financial complexities.

However, as well as your consultation document, we have met with the company and others to understand their position and knowledge of the contracts. It is clear that there are differing views, datasets and modelling being applied and further evidenced within your own paper on the significant changes in projections between 2012 and 2014. This is a concern particularly as we are told that customers are currently benefitting at a rate of around £1m per month.

A phrase often used in this energy area is "short term pain, for long term gain". Too often, customer fail to feel any long term gain particularly on prices. However, it would appear that this contract has seen customers take all the pain and are beginning to feel the benefit now that the capital has been repaid.

Our understanding of the UR's position is that you believe that the low cost of retaining the contracted plant is not offset by profits accruing because of the position of the plant in the merit order. This seems to be a very simple calculation but which requires a very powerful crystal ball since the variables which could affect the outcome are both market based and institutional/political.

The transition to a low carbon economy requires the phasing out of coal as the dirtiest of the fossil fuels. If the low price of coal is not offset by a high price of carbon the strategy for moving to a low carbon economy is in tatters. To do something about it is not a matter of interfering in the market because the invention of carbon permits is itself a market distortion. The problem is that it is not at present a sufficient distortion. The carbon price floor was a further interference in the market. It seem that the Regulators office assumes that Government will not "intervene" in the market to make carbon trading do what it is meant to do - drive out the dirtiest fuels. Secondly it would seem logical to assume that economic recovery will by itself increase both demand for energy and the price of carbon.

The point is well made that if cancellation is allowed AES could own 80% of the market in NI. At the very least their power to play games with the market would increase. So, protection for consumers is required there.

But would Ballylumford stay in existence if contracts were cancelled? Do we know what their attitude is? Are you arguing that if there is cancellation there would be a new market entry who would be more efficient, higher up the merit order and the overall outcome would be better for the environment and the customer? At a theoretical level that might be an argument but in practicality we don't believe that will happen.

So, with uncertainty on the economic modelling and assumptions being made on policy, we believe it is right to be cautious at this point and would require some assurances and further information which would assist with understanding if cancellation is indeed a good decision for consumers.

1. What circumstances would make cancellation the wrong conclusion?
2. What level does the price of carbon have to reach to meet Government's strategic objectives?
3. What assumptions have you made about the price of carbon for the next ten years and will you publish these?
4. What do they think Ballylumford will do if it is cancelled?
5. How will you ensure that AES with two power stations will not game the market - a change in their availability pattern, unscheduled outages etc?
6. What discussions have you had with AES and what do you know of AES's intentions and preferred outcome?
7. What are the costs of termination and winding up PPB?
8. If you do choose to cancel, will you undertake to publish, each year, an analysis showing whether customers are winning or losing as a result?
9. Cancellation is irreversible so does non cancellation now give more flexibility to respond to the findings of a monitoring exercise over the next two years?
10. With cancellation can you guarantee that NI will retain a third power station - have you modelled a scenario based on the closure of Ballylumford?
11. What attempts have you made to pressurise the parties to the contracts to improve the terms of the contracts for customers? We understand there is a 6-month notice period – would the company be agreeable to de-risking the customer should the potential scenario where this would cost customers be borne out?

The above is not an attempt to unpick the work which has already been done – we are just looking for a greater understanding to help with concluding on a view of your proposal. Hopefully this is seen in this way by your office.

In summary, on the face of it with the need to recover the original capital costs now removed, it would seem logical to expect this plant to make a surplus which is recycled as per the contract for the benefit of customers. Consequently the onus now is to show that on the balance of probability the contract will cost the customers money.

Should you proceed to cancel the contract then we would like assurances that all options to de-risk the customer are exhausted and a commitment to publish an analysis demonstrating if customers are winning or losing.

We are happy for this response to be published.