



By email only to caspar.swales@uregni.gov.uk

Caspar Swales
Head of Economics and Efficiencies (Finance and Network Assets)
Utility Regulator
Queen's House
14 Queen Street
BELFAST
BT1 6ED

19 May 2017

Dear Caspar

NORTHERN IRELAND ELECTRICITY NETWORKS LTD TRANSMISSION & DISTRIBUTION 6TH PRICE CONTROL (RP6) Draft determination March 2017

Further to your consultation in respect of the draft determination for the system operator and licence holder **Northern Ireland Electricity Networks Ltd** which is proposed to come into effect for a 6-year period from 1 October 2017 arc21 would like to set out its concerns in the response below.

arc21 is a statutory Joint Committee of six of Northern Ireland's Councils which was created in the last millennium and is currently responsible for developing and implementing a common waste management plan for approximately 59% of Northern Ireland's population. We refer you to our recent submission to the Utility Regulator's consultation on next steps of its review of electricity distribution and transmission connections policy issued in April 2017 for background on arc21. In the April 2017 connection policy consultation the Utility Regulator stressed the importance of stakeholders providing feedback to the March 2017 RP6 consultation as well.

As explained in our response to the connections policy consultation, arc21 is not experienced in engaging with the electricity sector as a power producer. However, we have tried to understand the factors at play in the context that we are aiming to deliver publicly owned regionally significant waste infrastructure in accordance with arc21's government approved waste management plan, which aligns to the Northern Ireland Waste Strategy and seeks to address a regional waste treatment capacity gap.

/cont.

The waste management plan arc21 is facilitating for its Councils incorporates the internationally accepted waste hierarchy. As well as waste prevention, minimisation, re-use and recycling, the hierarchy also includes energy recovery from waste. arc21 is currently in the process of a public procurement for regional scale waste treatment infrastructure that includes a facility to recover energy from fuel derived from Council collected waste (an 'energy from waste' EfW facility that generates electricity). The requirements for the public procurement are aligned with UK and NI energy policy in relation to reduction of the most damaging greenhouse gas emissions, energy security and resource management and also reflect key aspects of the Northern Ireland Sustainable Development Strategy. The EfW will require a grid connection to achieve R1 'recovery' status consistent with the revised Waste Framework Directive.

We have reviewed your RP6 consultation and would make the following response that should be should be read in conjunction with our earlier response on connections policy.

Northern Ireland Affairs Committee Report

The Utility Regulator will be aware of the report published on 28 April 2017 by the UK Parliament's Northern Ireland Affairs Committee. Whilst recognising the Utility Regulator has the privilege of independence of action in reaching its determinations and that energy policy is a devolved matter in Northern Ireland, arc21 would consider it reasonable that prior to its final determination of RP6 (and indeed on the connections policy) the Utility Regulator should respond to the relevant recommendations contained in the Committee's report with a rationale for how its determinations reflect or reject them. Otherwise it could appear that an important source of evidence based good counsel from a democratically accountable body will be set to nought.

Network reinforcement

The Utility Regulator's position seems to be that no enabling network reinforcement can be implemented with costs being funded through electricity bills as any degree of forward planning without an exact match of demand and supply on the grounds that over-provision is deemed to be 'inefficient'. arc21 struggles to reconcile this narrow approach where it prevents subsidy free, price taking generators using indigenous renewable fuels from accessing the grid to the detriment of consumers and the environment. It will also have the outcome of leaving the incumbent environmentally unsustainable thermal generators and subsidy supported speculative developers protected from competition and in an unassailable position to win the next 'capacity auction' to address inevitable security of supply concerns.

Further, in our separate submission on connections policy consultation we noted the Eirgrid/SONI All-Island Generation Capacity Statement 20172026 published on 27 April 2017. We thought there was a clear case for planning and executing the network reinforcement to allow suitable generators that could be on-line by 2021 or 2023 to access the grid, even on an insurance basis in the event of (i) the north-south interconnector not being developed, and (ii) the large conventional generators require to be decommissioned in line with the requirements of the Industrial Emissions Directive (IED).

/cont.

We note in ‘Table 40 Defined D5¹ Projects’ the draft determination has some allowances for four network projects. There is little description as to the drivers and rationale for these investments but one of them is for reinforcement on the Airport Road and, as it is described as distribution costs associated with a transmission project, we have assumed it is as a consequence of the c14MW merchant generator that is planned to be developed in the vicinity, and for which the Utility Regulator has agreed in principle some ‘deeper’ network reinforcement associated with a grid connection should be funded by bill payers. This being the case, the pro-rata reinforcement costs look like c£200k/MW. Using the Eirgrid/SONI median supply deficit value of 100MW by 2021 this suggests that a further allowance of at least £20million be made in the determination in the D5 mechanism for network reinforcement. We believe that NIE Networks have suggested a value multiples of this for a step change in grid capacity to allow a range of prospective new generators access to the grid. It is difficult to understand the grounds the Utility Regulator is standing on for preventing access to the grid to generators that would help alleviate the ‘trilemma’.

Relying on the capacity market and auctions may well ensure security of supply for Northern Ireland in the short-term, but it does little for the long-term prospect of putting in place the right business environment to encourage investment for new entrants, and leaves non-renewably fuelled conventional generators further entrenched.

Innovation

We note the representations by NIE Networks and the Utility Regulators response on ‘innovation’. Some contribution to innovation could be available from new generators to the market (e.g. the deployment of flywheel technologies) and this is not recognised in the draft determination by either NIE Networks or the Utility Regulator and arc21 believes it should be. Deployment, testing and validation costs could be shared reducing the costs to the electricity bill payer.

We also note the Utility Regulator in Annex O of the draft determination (ref. para 4.46(i))² sets a very high standard for the sifting of innovative technologies prior to them being trialled/deployed. However, it is not clear whether the cost benefit assessment of it is relative to the electricity consumer or the operator.

/cont.

¹ Para 1.3 of *Annex O Assessment of RP6 Network Investment Direct Allowances Draft Determination* 24 March 2017

“Direct network investment is treated in one of two ways in this Price Control:

- i) investment for which an ex-ante allowance is included in this determination; and,*
- ii) investment carried out under the ‘D5 mechanism’ where an estimate included for costs which will be determined at a later date when the need for the project has been confirmed and the scope, cost and programme developed.”*

² *“The company should assess the potential application of each type of technology it proposes to trial, take account of the risk of the trial not being successful and consider the net present value of the costs and benefits over the life of the relevant assets.”*

arc21 believes it should be relative to the consumer and the same principles should be used when prioritising grid connection applications from new generators of electricity. For example, intuitively, a price taking base load generator with low marginal costs with priority dispatch status without ROC subsidies cannot be anything but good news for the electricity consumer in Northern Ireland. The development of the arc21 EfW facility as a generator has the potential to improve affordability for electricity consumers.

Simple modelling carried out in 2016 in relation to the cost to consumers with existing load and comparing it to the modelled cost of the removal of a similar facility to the proposed arc21 EfW indicated the difference between the two energy costs for the 12-month period selected in the SEM was over €6million/year. The decreased cost being due to reducing the time the more expensive generation is online. We struggle to understand why this is not of interest to the Utility Regulator.

Yours sincerely



John Quinn
arc21 Chief Executive