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Creating a more competitive energy market for businesses

Executive Summary

- Electricity costs remain uncompetitive for large industrial/commercial (I+C) users which according to the recent Utility Regulator's price comparison report published in March are among the highest in Europe. Compared to our two nearest markets (in Great Britain and Ireland) prices are typically 20-25% higher in Northern Ireland. The report also indicates that domestic consumers and small businesses have access to competitive prices when compared to Great Britain, Ireland and Europe. We recognise that comparing prices across jurisdictions is prone to difficulties without a complete understanding of those markets. In addition the complex supply chains involved in energy generation and distribution add to the difficulty in pinpointing the issues.

- Whilst comparison with GB is difficult, given the differences in fuel mix, economies of scale, customer type, geographic location and market structure between the GB and NI electricity markets, it would appear that network charges are allocated between domestic and Industrial/Commercial customers on a basis inconsistent with the rest of Europe. However in GB this network cost penalty is more than offset for Large Energy Users (LEUs) by access to lower generation costs, which is not the case in N Ireland.

- A reasonable comparison can however be made with the Ireland which has a common wholesale market and regulatory structure although consideration in any analysis must be given to different customer types/ consumption profiles and economies of scale. Given the island of Ireland operates one generation market with one pool, the 20-25% cost difference noted between N Ireland and Ireland can only arise as a result of network charges, and in particular their allocation between sectors, along with a much lower application of various government levies. In fact it is Irish Government policy to rebalance network tariffs in favour of large energy users, in line with the rest of Europe. This has been stated publically by Ministers and the CER[1]. There are also no direct environmental levies in Ireland that are comparable to the Renewable Obligation and Climate Change Levy. PSO charges are also sculpted in the Ireland to reduce the burden on LEUs.

- Unless action is taken quickly and the competitive disadvantage that LEUs in Northern Ireland face verses the rest of Europe is addressed, future investment, growth and jobs in many of these operations will become unattractive – at present many of these companies are seeking to 'come off the grid' and provide their own electricity - yet these are the very customers which an electricity system should depend on for its core load (any large user

[1] CER/10/102, CER/10/206 and http://debates.oireacthas.ie/dail/2009/10/13/00055.asp

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exiting the grid will push the costs up for the remaining users). Without continuing investment the future of some of these operations will become more uncertain.

- NIAUR's executive summary puts forward three priority key work areas which they state will directly impact upon the issues raised by their paper. They are: to carry out a review of I+C competition, continue to scrutinise network costs and efficient European market integration. We view the first one as having little impact given suppliers' margins make up only 2-3% of total I+C customers costs and the last two items are part of NIAUR's statutory and ongoing role. We would contend that none of the next steps suggested by NIAUR will address the issue of the costs NI I+C customers pay for network charges and levies and taxes when compared to Ireland and a number of other European countries. We would therefore ask for the following short term actions to be undertaken by NIAUR and the NI Executive:

    - **The Utility Regulator (UR) needs to summarise how the structure of electricity tariffs in Northern Ireland is disadvantaging large industrial users** – this should include generating costs, capacity payments, constraint costs, network charges and PSO charges which are the key cost/price drivers

    - **The NI Executive must ensure that energy policy is designed to maintain and attract Large Energy Users** – and learn from experiences in other European regions, including Ireland

    - **The structure and allocation of Network charges via Transmission and Distribution Use of System tariffs needs to be reviewed urgently** by the Utility Regulator to ensure that they are cost reflective and in line with best practice within the EU - this needs to be completed within the next few months to influence next year's tariffs (set in August)

    - **There must be strong cross-party political support for major infrastructure projects which will benefit all consumers – an explicit statement of support for the second north-south interconnector should be issued by the Executive**

    - **Critical infrastructure (such as the proposed North – South Interconnector) needed to reduce unnecessary or avoidable costs, must be prioritised.** 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.

    - **Constraint costs are currently not sculpted to reflect demand and thus are not cost reflective** – this must be addressed by the Regulatory Authorities

    - **PSO charges need to be re-sculpted to ensure that the price customer's pay reflect the benefits they receive** – this must be done by August 2013 when new tariffs are set

    - **Restoration of the Moyle interconnector to full capacity** is expected to bring enhanced trading opportunities and should result in 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 with some urgency

A number of other issues arose during consultation with our members which could help to alleviate some of the challenges of high electricity prices. These include:

- **The extension of the gas network to the west needs to be pursued with urgency** – but the NI Executive must manage the risk of increasing transmission charges for all gas consumers

- **Demand side management measures should be encouraged through better information and possible regulatory changes** in order to alleviate security of supply concerns and potentially reduce the total costs of 'electricity production' through reducing peaking demand and constraint costs – more and better information is required by customers to maximise the potential of demand side management

Introduction – the need to create a more competitive environment for large energy users

1 As Northern Ireland seeks to emerge from a long and deep recession future growth is increasingly dependent on investment and trade. Yet uncompetitive energy prices, notably electricity prices for large industrial and commercial users, who tend to have a greater export tendency, risks undermining these objectives. The policy environment must act to support export orientated companies, rather than act as a cost disadvantage. This paper highlights these concerns and specifically responds to the recently published report from the Utility Regulator on price comparisons and comments on a number of specific issues raised in this report.

2 Northern Ireland businesses (particularly larger ones, with high energy usage) have been disadvantaged by high electricity prices for many years, and for this reason many companies are leading in energy efficiency. But despite their leading edge credentials in energy efficiency many of these energy users are penalised by high electricity costs at a time when they are facing intense global competition, and in some countries, notably the USA, energy prices have been falling significantly as a result of oil/gas fracking.

3 There are other related factors which also impact on their competitiveness:

- There is no Renewable Heat Incentive for 1MW+ users – they are at a disadvantage to GB counterparts – without a competitive rate the potential to develop a new biomass industry in Northern Ireland will not be realised (we recognise this may encourage LEUs to exit the grid but in some cases these may help retain investment in N Ireland rather than lose it altogether)
- There is uncertainty over the future of ROCs which is undermining investment
- In some rural areas there are particular concerns about network reliability issues and whether there is an appropriate focus on investing in rural electricity networks
- Many industrial/commercial users do not have access to natural gas – we have welcomed the commitment from the NI Executive in January to extend the gas network to the west and provide a £32m subsidy – this project needs to be driven with some urgency while ensuring that gas transmission costs remain competitive
- There is a lack of clarity and understanding on the potential to utilise demand management measures to help reduce energy costs – there is a more active market in Ireland in this area

- Significant administrative costs (both direct and use of consultants etc) for the largest users relating to a range of levies which are now in place

4 The implications of having sustained uncompetitive prices and these other factors is stark:

- Future investment is being put at risk, especially in moderate to large energy intensive users **– in some cases the future viability of operations and retention of current workforces is being called into question**
- Northern Ireland will be unable to attract FDI where energy is a key cost – this includes manufacturing and extends to areas such as data centres, which could take advantage of Northern Ireland's leading telecommunications infrastructure – this is in sharp contrast to Ireland, supplied by the same generating pool, which has continued to attract significant LEUs in both manufacturing and services
- Many larger electricity users are considering coming off the grid (to self-generate) – yet these are the 24X7 customers we need to keep on the grid – as large users leave the grid the unit costs for other customers will rise (part of the rise in electricity prices in recent years is as a result of lower demand largely caused by the economic downturn) while also impacting on the efficient utilisation of the grid and the load factor in generation. This is a vicious circle.
- As companies automate, invest in capital and drive up productivity the price of energy becomes more important – some of the most high value added companies in Northern Ireland are large energy users – and face falling unit prices as they compete globally while energy costs are increasing
- Structurally one of Northern Ireland's biggest weaknesses is a lack of large companies - we have approximately 40% less large (employing more than 250 people) companies than the rest of the UK, and other countries, yet these companies are key economic drivers and deliver widespread spillover benefits – the 100 Large Energy Users (LEUs) in Northern Ireland, have extensive supply chains supporting many smaller companies, in addition to the tens of thousands of people they employ directly.

5 At the same time there is an impending security of supply issue rapidly approaching which has the potential to add a further cost burden to industry. This is being driven by EU emissions regulations which will result in the closure of Ballylumford generation capacity, the restricted capacity on the Moyle Interconnector, and the delay in delivering planning consents required for progression of the second north/south Interconnector that is needed in order to access spare generating capacity which exists in Ireland. In Northern Ireland little use is made of demand side management (either through load shedding or self-generation) as an alternative to using expensive peaking plant. The reasons for this remain unclear but appear to be due to 1) lack of information, 2) lack of incentives and 3) uncertainty over what licencing requirements are needed to promote this in N Ireland. This is certainly available to LEUs in Ireland and may help some larger electricity users in N Ireland reduce their costs too. Constraint costs are also likely to be driven higher at peak demand periods yet as currently modelled these are not sculpted to reflect this - this needs to be reviewed.

6 During the course of 2012 the concerns of our members, which highlighted significant price differentials between Northern Ireland and both the Republic of Ireland and Great Britain, were highlighted to the Utility Regulator (UR) and government. Concerns relating to the structure of network charges and how PSO charges were being allocated

have been raised, while there has been some surprise in the business community regarding how domestic tariffs appear to be competitive with other countries.

Utility Regulator Report – NI Electricity Prices: data and comparisons

7 The UR report published on 26 March 2013 is self-explanatory. The key findings are:

- Electricity prices for domestic consumers and small industrial/commercial consumers are around the EU average (in the period Jan-June 2012)
- For all other industrial/commercial customers electricity prices were among the highest in Europe – an assessment of the data would suggest prices typically 20-25% higher than average UK prices.

The findings are stark and the reverse of what one might expect when the NI Executive has set the development of the economy as its number one priority. The findings confirm the uncompetitive position most large industrial/commercial energy users are facing. In the following paragraphs we provide our members views on the issues set out in the UR report and our members understanding of what is behind these price differentials, as well as some potential solutions.

Market size/scale, isolation and consumer dispersion

8 CBI members accept that these issues are likely to contribute to higher energy prices in Northern Ireland – there is a general acceptance it will be difficult to deliver prices within the Single Electricity Market (SEM) which will be lower than in Great Britain. What is surprising is that domestic and small industrial/commercial customers are able to access competitive prices in contrast to larger users. For instance

- The UR report (chart on pg 24) highlights that the LEU pays around 60% of the domestic price in Northern Ireland
- In the Republic of Ireland the LEU pays typically around 38% of the domestic price – and this is the same percentage in the EU median spread

9 The evidence we have collected suggests that there are four key contributing factors to help explain this situation:

- In GB larger users appear to be able to access significantly lower generating costs than domestic customers. Overall within the GB market generating costs are lower with a combination of fuel mix and under charging for capacity acting as key contributing factors. We recognise that many Industrial and Commercial consumers in Northern Ireland do have poor load profiles, with a load factor of only 40-45%
- In Ireland LEUs pay around 32% less for their network/Use of System charges which creates a more competitive overall price (they do pay the same generating costs, capacity costs and constraint costs as NI LEUs) – many of the largest LEUs in Ireland do not pay Distribution charges as they link directly into the Transmission network
- Larger consumers are paying disproportionately high PSO charges eg some large companies are paying in tens of thousands of pounds for PSO charges for ‘services’ which they do not benefit from. We note that in Ireland the LEUs only picks up around 30% of what a domestic pays – and the payment is structured differently being based on a capacity related basis rather than on a KWh basis

- A lower supply margin appears to be a contributor to helping domestic consumers in Northern Ireland – an uneconomically low regulated supply margin in the domestic sector is not good for businesses and is likely to create a further imbalance between the domestic and business sectors

Wholesale energy costs and fuel mix

10 There is an acknowledgement that the SEM has a high dependence on generation using natural gas (approx. 70%) while the SEM also has a capacity charge which currently does not exist explicitly in the GB market (though it is under discussion) – it is also likely that the gas will become a much greater percentage of the GB wholesale market over the next 5-6 years as coal stations close. We would expect prices in the SEM to be higher than the GB market for all customers. We understand that prices in the SEM are around 15% higher than GB market prices (including the Capacity charge payments). Over the next few years as the Carbon Floor Price takes effect in Great Britain this will drive generation prices up (at least in fossil fuel plants). However to help improve confidence the Utility Regulator could try to provide more transparency between the SEM and GB prices.

11 However an assessment of generation prices (including capacity charges, imperfection charges and market operator charges) from October 2012, which has been shared with us, suggests that SEM prices can be as much as 30% higher than in GB – this is a very significant difference. The SEM price is based on a Short Run Marginal Cost (SRMC) with a capacity charge based on the cheapest plant available on the market at that time, while in GB the price is derived from bids by generators and typically reflects a Short Run Marginal Cost without a capacity charge.

12 Interconnection should be an opportunity to help reduce price differentials and ensure power flows from the lower priced market (in this case GB) to the higher price. This is happening, though both physical restrictions, the costs of interconnection (which can be around 10% of the generating cost) and significant operational risks may prevent the maximisation of trading potential. The regulatory bodies could review how the risks associated with trading could be reduced in order to benefit consumers more – this will form part of the EU Market Integration project but some early solutions would be helpful.

13 The capacity payment is explicitly included as a charge in SEM and implicitly included in the unit price in Betta (the GB market). However, a number of market analysts suggest that the 'implicit' capacity price in GB does not fully remunerate generators. This has been recognised by ESRI and the fact that GB government and regulators are currently investigating a capacity payment mechanism. This tends to mean that the Betta price is lower but more peaky than the total SEM price (commodity + capacity) as the low load factor units attempt to try to recover their full costs during the peak times when they run whereas in SEM these units are rewarded on a more consistent and predictable basis through the capacity payments. We would welcome clarification that the capacity payment within the SEM is sculpted to reflect usage.

14 In the SEM LEUs appear to be able to access generating prices up to 15% less than domestic consumers, reflecting their load profile whereas in GB large electricity users appear to access generation prices at around 20% less than domestic customers. This

appears to be due to a flatter generation price (energy and capacity), seasonality and diurnally, in the SEM compared to GB. Greater liquidity in the GB market might also explain part of the difference while there may also be a lag factor at play to help explain the scale of the current difference. This is an area where further investigation is necessary:

- Greater clarity/transparency around this area would be helpful
- It may be that increased price signalling in wholesale prices (eg more sculpting) could encourage improved utilisation of assets and in turn benefit high load factor customers, and hence minimise their desire to exit the network
- LEUs with a fairly constant 24x7 demand will create relatively low constraint costs, especially compared to domestic consumers – we do not believe the current allocation of costs reflect this and LEUs may be paying disproportionately high constraint costs. Likewise are the same LEUs being charged a disproportionate amount for peaking plant while it is not the cause of it?
- There is also merit in reviewing network losses for large users

15 It is critical that downward pressure is maintained on imperfection charges (which largely reflect constraints/bottlenecks in the system) – in the current 2012/13 year these are currently estimated at €154.9m across the SEM (all-island) – this equates to an annual cost of around £32m to Northern Ireland consumers (and is about 5% of LEUs electricity costs). As we have highlighted above the Regulator needs to review how these costs are sculpted to ensure they are cost reflective.

16 With higher wholesale costs in the SEM this does little to explain how domestic consumers and small industrial/consumers can have prices which are broadly the same as in GB, as the reverse should be expected. It suggests that other costs are significantly lower. There is evidence to suggest a lower supplier margin exists in Northern Ireland[2] (where tariffs are largely regulated) with regard to the domestic sector and small I/C consumers which may help contribute to the more favourable position they are in.

17 Finally while Northern Ireland consumers are contributing towards an explicit Capacity Charge (to ensure sufficient generation capacity is available) we now appear to be facing a security of supply situation in 2016 when the supply margin is expected to reduce to around 200MW. A consultation on this issue is expected shortly from the UR – customers are asking how despite paying an explicit capacity charge they could now be potentially facing additional costs.

Energy policy, taxation and regulation

18 A number of issues are raised here:

- **Policies aimed at delivering efficiency and protecting customers within the electricity cost-chain**

[2] ESRI Working paper No 372, Goldilocks and the Three Electricity Prices: Are Irish Prices "Just Right"? - authored by John Fitzgerald and others, 2011

The SEM Committee has a clear responsibility to ensure that the wholesale market on the island of Ireland is working effectively. A number of issues need to be considered:

- **Generation profitability** is likely to fluctuate over time – we look forward to the publication of the SEMC report on this issue. Clearly generators need to have an adequate return to encourage investment and reflect the risks of operating within the SEM – consumers would welcome more transparency on this issue by the Regulator(s).
- We need to ensure the **capacity payment** does not over-reward new generation – this should be closely monitored by the SEMC – capacity charges are significant and in the current year cost consumers across the SEM €535m (equivalent to an annual cost of £110-115m to NI consumers, and equating to c 15% of a LEU's electricity costs) – though NI consumers may face additional costs in advance of a supply squeeze expected in 2016 (we understand a consultation paper from the UR is imminent)
- **Measures to improve market liquidity** should also be promoted including the need to promote more day to day trading – we understand this forms part of the EU market integration project. It may be possible to encourage ESB (who have excess generation capacity) to improve market liquidity
- **Reducing imperfection charges** - some 92% of these charges relate to constraint payments - there needs to be a stronger determination (and political support) to press ahead with key infrastructure which can help reduce these costs –
- **The second North/South interconnector** is essential to strengthen the all-island grid, facilitate the development of the SEM and reduce 'constraint payments' and bring benefits to all customers – these have been estimated at around €30m per annum for all consumers – this is a high priority project which needs strong political support – the NI Executive, together with the Irish government should issue a statement confirming their support for this strategic investment. With wind becoming an increasingly larger part of the generating mix there are increasing periods when wind is 'constrained off' – a significant challenge is to identify effective storage of electrical energy which can utilise this power.

19 We believe the issue of **network charges** does need to be reviewed – whilst costs in NI appear to be competitive with GB there is compelling evidence that in Ireland (and indeed the rest of Europe) authorities have allocated their network charges in a different manner which is more favourable to the largest energy users – indeed network charges for these customers appear to be as much as 40% lower than LEUs based in NI, though domestic consumers do pay proportionately more. This contributes to more competitive electricity prices making Ireland more attractive for current and potential new energy intensive users – including in manufacturing and datacentres. Total network charges (Use of System Charges) are £214.4m for Northern Ireland in 2012/13.

20 The difference in electricity prices between Northern Ireland and Ireland for Industrial and Commercial consumers are explained in Table1 below (based on a sample of NI customers whose profiles were subsequently benchmarked via RoI prices).

Table 1 Price comparisons between Northern Ireland and Ireland*

	Northern Ireland	Ireland
SMP	54.22	54.22
Capacity	13.78	13.78
Network and SSS charges	13.33	8.04

Imperfection Charges	4.72	4.44
PSO	3.60	1.68
ROC	2.98	0
Other incl CAIR and MO	1.06	0.59
CCL/electricity tax -indicative only	2.30	0.43
TOTAL	**96.0**	**83.18**

*Prices are in £/MWh for 2012 – and exclude the LEU rebate of 4.05 for Irish LEUs, and excludes supplier costs/margin (which are similar in both constituencies) -

21 Network charges consist of both Transmission Use of System charges and Distribution Use of System charges – both of which are regulated. We need to review how the costs are allocated compared with other regions (though we understand the sculpting of Distribution charges is based on the GB model) and the weighting of the charges across the year/ day/ week. In the GB Betta market all of the Transmission charges are collected from demand during the 3 peak half hour periods whereas in SEM they are profiled across the whole year – this can lead to a dramatic redistribution of charges between different load shape customers, and needs close investigation.

22 With regards to **supply competition** for larger users there has been a noticeable improvement in competition in recent years. However while this has been welcomed most users who have comparable sites in GB would suggest that the level of competition is not as intense in Northern Ireland as it is in GB – there are seven active suppliers and 10 or more consultancy/advisors operating in the NI market. There is some evidence to suggest that supply margins are slightly higher in NI (and ROI) compared to GB (perhaps reflecting the lower levels of competition and the scale of operations). With regard to the effectiveness of supply competition we welcome the review the UR is planning for 2013/14, though we do not believe this is a key driver of the current price differential facing LEUs. We have previously supported the provision of a published tariff for larger electricity users (using some typical user profiles) to act as a benchmark – this approach is not without risk as a regulated tariff approach could set the benchmark too high (therefore increasing margins) or too low (and driving out supply businesses). Finally an uneconomically low regulated supply margin in the domestic sector is not good for businesses and is likely to create a further imbalance between the domestic and business sectors.

23 A particular area of concern related to retail competition relates to the **Public Service Obligation (PSO) charges**. We believe large energy users are paying disproportionately high PSO charges for activities from which they do not benefit. The total PSO charge for 2012/13 is £22.3m – but two key elements of the charges do not benefit larger users, notably:

- £11.5m towards Retail Market IT system (to facilitate retail competition particularly in domestic and small I/C customers) and
- £9.6m for the NI Sustainable Energy Programme (NISEP) – an energy efficiency programme focused at vulnerable (domestic) customers

24 These two costs are almost entirely to the benefit of the domestic and small I/C customers – yet this is costing LEUs tens of thousands of pounds, while a typical domestic customer is paying around £8.25 per annum as the PSO is based on a set unit charge of 0.25p/KwH. It is highly questionable whether these charges are 'cost reflective' as they are currently applied. We believe these cost allocations need to be

urgently reviewed. In Ireland the LEUs pay a PSO charge which is approximately one third of what domestic consumers pay and it is based on maximum KvA demand rather than on a per unit basis - we do recognise that the make-up of the PSO may be different and that should reflect how costs are allocated.

- **Relative policies towards renewables**

25 While we have not identified any issues which may explain the price differentials the key message from CBI members is the need to develop renewables at least cost – this needs a strategic approach to achieving the 2020 targets. This in turn requires a joined-up approach between DETI/DoE and the UR to ensure an integrated and coherent policy to investment plans exist. The CBI supports the movement towards a low carbon economy, and LEUs are a key part of this but it is essential that all policies are designed with them in mind.

- **Taxation; supplier obligations**

26 While clearly there are different tax and supplier obligations across Europe within the UK these differences are not considered significant in terms of explaining the price differentials between NI and GB. The Climate Change Levy and Renewable Obligation Costs are probably the most significant additional charges facing industrial and commercial consumers in NI (and GB) relative to Ireland, and partially contribute to the price differential which exist – these levies add 5-8% to a NI based LEU compared with a similar energy user in Ireland. However care will need to be taken with regard to changes to existing levies, or the introduction of new levies (Feed-in-tariffs, Supplier Obligations etc), and their impact on the competitiveness of LEUs in particular. As a matter of principle it is essential that ROCs and other incentives are designed in a manner with delivers environmental benefits at least cost.

27 We have supported and welcomed the exclusion of Northern Ireland from the Carbon Floor Price introduced on 1 April 2013 in Great Britain – without this derogation all NI consumers would have been faced with a further rise in electricity prices (of an estimated 10-15% over the next few years) and increased security of supply issues.

28 While many Northern Ireland based companies are already exemplars in energy efficiency we believe that incentives should be given to help companies reduce their energy usage, and reduce their carbon. We need to ensure that support for investment in energy efficiency is maximised within the EU state aid rules which is a key constraint. We acknowledge that EU rules limit the provision of support for energy efficiency measures – this makes it even more important that a competitive RHI product is available in Northern Ireland.

29 Demand side management measures should be encouraged through better information (and potential regulatory changes), in order to alleviate security of supply concerns facing us with the closure of Ballylumford coal fired plant and delays in delivering the second North-South interconnector. Furthermore, bidding a demand reduction into the pool may, (through avoiding more expensive peaking plant setting the pool price), potentially reduce the total costs of ‘electricity production’ for that half hour through reducing peaking demand and constraint costs. Clarity is required around the necessity for changes in legislation or other technical constraints that prevent industry from doing

this. We understand plans are well advanced in the south to bid demand reduction into the pool.

30 Additional support could be considered by DETI/DFP to help offset high energy costs. In 2009 CBI proposed that the NI Executive should agree to a long-term incentive to encourage more organisations to reduce their carbon footprint through reducing their energy usage and improving their energy efficiency by providing a discount on the regional rate if the 'Carbon Trust Standard' is achieved and maintained. We continue to believe there is merit in this proposal as it will:

- Incentivise and reward investment in energy conservation, energy efficiency, renewables and the reduction in carbon
- contribute directly to achieving the Executive's goal of reducing greenhouse gases – in particularly it will create significant momentum in the industrial/commercial sectors and in supply chains
- be particularly beneficial to energy intensive users, helping to offset Northern Ireland's high energy costs
- will position Northern Ireland at the front of the drive to reduce carbon emissions in the industrial/commercial sectors and provide a valuable promotional tool for Northern Ireland

Other Energy Issues

31 During our consultations with members other ideas emerged which could help to reduce energy prices in the medium/longer term to all consumers:

- **Restoration in capacity of the Moyle interconnector** – CBI believes that the loss of 50% interconnector capacity has increased prices to all Northern Ireland consumers alone by around £28m pa while reserve costs have been around £8m pa higher – these are indicative figures only and more in-depth analysis is required. However they do suggest that the restoring the Moyle to full capacity could help bring generating costs down by around 2-4%. Though the new East-West interconnector (between Wales and Dublin) is now in operation the capacity constraints on the existing north-south interconnector would suggest that restoration of Moyle to full capacity will still be beneficial, even though prices in GB are expected to rise in the coming years (partly as a result of the new Carbon Floor Price Levy[3], an increasing reliance on gas (from the current 33% to 60-70% by the end of the decade) but also as the GB market itself faces tightening supply situation – the head of Ofgem stated back in February that "*reserve margins for generation capacity were set to fall from 14% to just 5% within three years*". The costs of repairing the Moyle interconnector is likely to be met initially by consumers in Northern Ireland though the benefits may be more widespread - it will be important to ensure that other consumers who benefit contribute to the costs. **An early assessment of the short term and longer term benefits (and costs) of restoring the interconnector should be undertaken as a matter of urgency.**
- **Overcoming short-term security of supply threat** – The NI Executive need to explore the possibility of securing a derogation on the closing of conventional generation units 4, 5, 6 at Ballylumford to give some breathing space in advance of a supply/demand margin squeeze around 2016

[3] In Great Britain with a CFP of £18.08 by 2015/16 this will increase CCGT costs by £6.78/MWh and coal plants by £16.27/MWh.

- **Gas storage** – to help improve security of supply in Northern Ireland we support the development of a major gas storage facility – this should be built on a commercial basis, and will need the co-operation of regulators in Belfast, London and Dublin to ensure it can service the whole region
- Potential scope has been identified for using existing transmission pipelines for storage – purchasing cheaper gas at weekends and releasing it during the week. We believe this **'inventory product'** should be further investigated and trials undertaken (some work /trials were done on this previously but not completed).
- **Promoting the take-up of gas by all public sector buildings/estates** needs to be encouraged – as consumption increases the unit costs fall for all consumers. With domestic sector
- **Fracking –** with potential fracking sites identified in Co Fermanagh we believe the Executive should provide support and encouragement to facilitate the further exploration and assessment of these potential gas deposits. Clearly the development of any viable fracking sites will need to be adequately regulated from an environmental perspective. But the scope for developing an indigenous energy resource could have considerable economic and social benefits within Northern Ireland over the longer term
- **Infrastructure investment** – while views are divided there is increasing concern that increased regulatory risk and uncertainty will undermine investment and lead to higher financing costs. There is a clear need to balance the need to keep costs down in the short-term while ensuring that we undertake sufficient investment to support long-term goals, including inward investment, maintain network reliability, and increase security of supply through completion of the north/south interconnector. Greater clarity on what we are trying to achieve, a more engaging process to determine investment requirements and a higher quality of debate and discussion (and better communications) between utilities and consumers are needed.
- **There is considerable scope to develop a biomass industry** – the DARD agri-food strategy should include a review of the potential to develop a sustainable biomass industry in NI
- **Energy efficiency and take-up of gas within the domestic sector** – this should remain a high Executive priority – including initiatives such as the Green New Deal for the domestic sector. Take up of natural gas is approximately 50% within the Belfast area – improved energy efficiency and uptake of gas will help reduce fuel poverty

32 Finally we need to be mindful of proposals for Implementation of the **European Target Model for the SEM**, which carries risks and potential costs. In the longer term a more integrated energy market should be advantageous to consumers on the island of Ireland. It is important that the SEM Committee takes account of the following concerns:

- Any costs incurred with new market arrangements that comply with the Target Model must deliver tangible benefits to business and consumers on the island
- New market arrangements must not jeopardise our energy competitiveness, sustainability goals or energy supply security
- New arrangements ought to be non-discriminatory as between market participants in Ireland and the rest of the EU
- The System Operator should not have discretionary power to impact the commercial position of market participants
- Any transition to new market arrangements should be able to adapt to changing circumstances without requiring piecemeal alterations

- Due to the technical complexity of the proposals we believe the project team needs to take steps to encourage a more active engagement, particularly by industrial energy users, at future stakeholder forums.

Concluding remarks

33 For decades large industrial businesses in Northern Ireland have faced uncompetitive energy costs. More recently, with the global recession and depressed consumer demand multi-national companies are increasingly seeking to close down and relocate those production facilities generating the highest per unit costs of production. With our high energy costs counting against local production facilities, business in Northern Ireland will be all the more vulnerable as a result (even though many are extremely energy efficient).

34 It is now very clear that energy policy in Northern Ireland has resulted in the worst possible outcome for Northern Ireland business, now operating at a significant competitive disadvantage with the two energy markets it straddles, GB and Ireland. Unless action is taken quickly and the NI Executive is committed to supporting the necessary actions necessary to remove the competitive disadvantages arising from policy outcomes and improve the competitiveness of electricity prices for larger users, future investment and employment in many of these export focused operations will become unattractive

35 Indeed the overall costs and levies are now becoming so punitive that at present many of these companies are seeking to ‘come off the grid’ and provide their own electricity - yet without these are the very customers to share in the costs of running the network which the an electricity system should depends on for its core load. Without determined action Northern Ireland faces a downward spiral of fewer larger users operating in the marketplace, driving up costs for those that remain.

CBI Northern Ireland

21 May 2013