

## NIRIG response to NIAUR NI Electricity Prices Information Paper

24<sup>th</sup> May 2013

The Northern Ireland Renewables Industry Group (NIRIG) is a joint collaboration between the Irish Wind Energy Association and RenewableUK. NIRIG represents the views of the large and small scale renewable electricity industry in Northern Ireland, providing a conduit for knowledge exchange, policy development support and consensus on best practice between all stakeholders in renewable energy.

NIRIG welcomes the opportunity to respond to the NIAUR Information Paper on Electricity Prices and the stated NIAUR commitment to transparency. Before responding in detail to the issues raised in the information paper, we would like to note some broader points. Firstly, and crucially, the report purports to be a first step towards a shared better understanding of energy price drivers, yet is based on incomplete evidence as the analysis used to ascertain prices is, in and of itself, fragmentary. Furthermore, NIRIG would recommend that any inferences, work streams or policies that follow from an incomplete paper such as this could be ill-advised, as these should all be based on robust evidence.

NIRIG would also point out that the report fails to reference or discuss any of the benefits of renewable energy, such as security of supply, acting as a hedge against increasing fossil fuel prices and carbon emission reductions. Instead, the paper states, again without back-up evidence, that the impacts of renewable energy on electricity prices 'may be significant'. NIRIG would strongly recommend that such negative inferences be avoided unless robust evidence and analysis can be provided to back them up. The report rightly points out that renewable energy policy is beyond the remit of NIAUR but it is important to note that renewable supports are needed to deliver government policy of 40% electricity consumption from renewable sources by 2020.

We have grouped further specific points based on the suggested sections below:

### 5. Aspects that we may have got wrong

- NIRIG notes that the paper refers to both energy and electricity prices (p3). At the outset NIRIG would suggest that care should be taken to be extremely clear about the difference between energy and electricity: a spectrum of energy costs, and not electricity alone, impacts upon both fuel poverty and business competitiveness<sup>1</sup>

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<sup>1</sup> [http://www.consumercouncil.org.uk/filestore/documents/Lord\\_Whitty\\_Report.pdf](http://www.consumercouncil.org.uk/filestore/documents/Lord_Whitty_Report.pdf);  
<http://www.niassembly.gov.uk/Assembly-Business/Committees/Social-Development/Reports/Report-on-Fuel-Poverty/>

- NIRIG believes that the paper itself is incomplete as it does not disaggregate Large Energy User prices in Northern Ireland, as it does for domestic prices
- While the paper acknowledges that it is not an analysis or explanation of electricity prices, it nevertheless attempts to outline reasons for electricity end-prices in Northern Ireland. NIRIG does not believe that this increases transparency; rather, NIRIG suggests that this could prejudice any subsequent debate. Without sufficient evidence to draw meaningful inferences or conclusions, these should not have been drawn
- The paper references other countries without understanding wide-ranging and highly significant country-specific idiosyncrasies. For example, German LEUs have an exemption from network charges and wholesale prices are too low in Great Britain, as evidenced by a significant capacity shortfall identified in Project Discovery and subsequent implementation of EMR. NIRIG would suggest that referencing other countries without accurate analysis and context (e.g. wholesale markets, energy mix, economies of scale) is both misleading and inadvisable.
- The paper does not offer a like-for-like comparison despite purporting to do so with reference to the methodology employed (for example, p. 13 states that “Throughout the process, we also had to ensure we were always comparing like with like and therefore had to ensure our methodology was consistent with DECC”). Instead, the report outlines different customers in different jurisdictions and does not take account of any differences in scale or demand of customers. For example the scale of customers in NI is much smaller than in GB or ROI and in a smaller market, how customers choose to hedge their own electricity costs will have a greater impact on relative price
- The closest ‘like-for-like’, albeit imperfect, comparison can be observed by looking at the Republic of Ireland and Northern Ireland, for the reasons outlined below:
  - NI & ROI share a common wholesale market (the Single Electricity Market - SEM), market power mitigation strategy, and governance arrangements via the SEM Committee. The SEM is unusual, if not unique, in terms of the constraints it imposes upon generators. The Capacity Payments Mechanism (CPM) regime was designed by the Regulatory Authorities (RAs). As such, it is scrutinised and overseen by the RAs and many of its key parameters are wholly determined by the RAs. Generators are restricted in their bidding by Short Run Marginal Cost (SRMC) rules enforced by a Bidding Code of Practice (BCoP). There is no wholesale price differential between NI and ROI and that price is cost reflective by definition given SRMC bidding rules and a capacity mechanism determined by the RA. The RAs have openly and strongly endorsed the SEM design<sup>2</sup>
  - At a retail level the same companies compete in the LEU sector and there is no reason why they would price differentiate between ROI and NI customers given that the same competitive forces, market liquidity and wholesale prices apply
  - Government policy in respect of RES is consistent across ROI and NI i.e. 40% RES by 2020

<sup>2</sup> <http://www.allislandproject.org/GetAttachment.aspx?id=c23bdd02-bc49-4e21-af67-16bc0b30d994>

- The costs of renewable energy support are allocated differently, but NI receives a generous settlement in the Renewables Obligation (approximately 50% of GB obligation)

2013-2014	£42.02	0.206	0.097
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- The renewable generation mix in NI is comparable with ROI
- NI & ROI share a common connection charging policy (i.e. shallow connection policy which is a feature of the SEM High Level Design)
- Population density and economies of scale are comparable, although I&C customers in ROI are larger and have flatter loads
- Both jurisdictions, geographically peripheral to Europe, are at the wrong end of the supply line, but both have a valuable natural resource in wind

Given the above, it is clear that the differential in electricity prices between ROI and NI can be explained with reference to the allocation of network charges between small to medium and large users and government policy<sup>3</sup> and implementation<sup>4</sup> around this. In ROI PSO costs, which include RES-E support are allocated on the basis of individual % of peak, which means that PSO costs are shifted from large users towards domestic profiles.

## 7. Other Contributions

### *Benefits of renewables*

Renewables are a central plank of energy policy on the island of Ireland and will contribute towards security of supply, a sustainable and affordable energy future, reduction in carbon emissions and act as a hedge against volatile and rising fossil fuel prices. This paper focuses on the short term and ignores the benefits of renewables. In particular, Section II (Relative policies towards renewables page 30/31) focuses entirely on the negatives of renewables and does not mention any benefits e.g. security of supply.

In the report, the UR lists current policies towards renewables as one of the main drivers of energy prices but does not discuss the benefits of these policies. Their analysis lists the costs that consumers bear to facilitate renewables in terms of direct, indirect subsidies and the system operation costs of backup generation. Shallow connection charging policies are also cited as an example of indirect subsidies that have a significant impact on costs. In reality, shallow connection charging policies are an element of market design that applies equally to all types of generation and not just renewables and it is inaccurate to suggest that they are a form of indirect subsidy for renewables. The analysis lists a number of perceived costs of renewable energy policies but it fails to mention the benefits that accrue from the achievement of 2020 renewable targets. Modelling completed by Eirgrid and SONI<sup>5</sup> as part of the DS3 Programme has identified an annual benefit of €295 million in terms of lower total energy costs across the SEM (total energy costs in 2020 when renewable targets are met and planned system operation improvements are delivered as compared

<sup>3</sup> Minister for Communications, Energy and Natural Resources (Deputy Eamon Ryan), <http://debates.oireachtas.ie/dail/2009/10/13/00055.asp>

<sup>4</sup> €50m p.a. of savings for large energy users funded by a rebalancing of domestic tariffs - CER/10/102 & CER/10/206

<sup>5</sup> [http://www.eirgrid.com/media/System\\_Services\\_Consultation\\_-\\_Finance\\_Arrangements.pdf](http://www.eirgrid.com/media/System_Services_Consultation_-_Finance_Arrangements.pdf)

with the current level of renewables in the SEM). This figure does not include other benefits such as emissions trading benefits and avoided penalties for not meeting binding renewables targets which are also not mentioned in the UR analysis. To ensure that there is a worthwhile debate on the main drivers of energy prices, it is essential that benefits such as these as well as the costs of energy policies are represented.

Ultimately renewable policy is outside the Remit of the RAs (as they acknowledge) and importantly it is irrelevant in the context of this debate: the differential in prices identified is explainable by profiling of UoS charges between small to medium and large customers.

### **2/3. Best follow-up areas/priority areas**

NIRIG would reiterate our opening comment: that we believe this paper to be an incomplete analysis. We therefore believe that to propose work streams arising from such a paper is fundamentally flawed.

#### *Interconnection*

That being said, the paper refers to priority work areas for 2013-14 already outlined in the Forward Work Programme 2013-14 (FWP). One of these is the efficient integration of the wholesale market with Western Europe, including interconnector arrangements. NIRIG fully supports further interconnection and network improvements and efficient utilisation of same. To highlight one crucial network project, we believe that progress on the N-S Interconnector must be made as soon as possible in order to allow the NI consumer to benefit from improved market flows and a reduction in the level of constraint costs currently paid by the NI consumer due to its absence, currently estimated to be in the region of £18m/year.

#### *Market services and arrangements*

Another work stream outlined in the draft FWP but omitted from the final FWP was the introduction of new market services and arrangements to allow additional renewable generation connection and reduced costs for consumers, which referred to the DS3 project. NIRIG would recommend that this extremely important work stream be prioritised to focus on curtailment mitigation measures.

In the long term, better utilisation of renewable electricity will permit the growth of renewables' overall contribution to electricity demand to beyond 40%. Technologies such as gas storage, electricity storage, increased interconnection, enhanced thermal generation, heat from electricity, electric transport and demand side management will all help improve the utilisation of Northern Ireland's renewable electricity resource.

#### *Price control scrutiny*

Another priority area highlighted is: "Continue to robustly scrutinise network price control proposals (whilst allowing companies to finance)". This is an important element of NIAUR's duties. However, it is vital to scrutinise network price controls within the context of delivery of renewable energy for the purposes of reaching government targets and enabling savings arising from increased levels of renewable generation (see the EriGird reference, above). There is a need to ensure

funding to enable developments which will provide benefits in the future e.g. building better networks will reduce curtailment and increase output from renewable generation already in place. Furthermore, scrutiny of price controls should also be timely, and indeed approval of infrastructure projects should also be carried out in such a way to provide certainty of investment within as rapid a timeframe as possible.

NIRIG welcomes the opportunity to respond to this paper and would welcome the opportunity to discuss next steps with NIAUR, based on our analysis as laid out above.

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Meabh Cormacain

**NIRIG**