



**SSE Renewables - Response to
Consultation on Vacant Sites Within the NIE Land Bank**

16 July 2010



Consultation on Vacant Sites Within the NIE Land Bank

Introduction

SSE Renewables is pleased to have the opportunity to respond to the Utility Regulator's consultation on future use of the Land Bank assets. Their current status is a burden, albeit minor, on the PSO and we have long advocated either their return to productive use or disposal. The current consultation is therefore a welcome start to the process of reaching a conclusion on the best option.

Summary of SSE Position

In responding to this consultation, we are mindful of the risk of over-dependence on gas for electricity generation in the Single Electricity Market; recognising that this concern is widely shared across the industry and by both Government and the Regulatory Authorities. In the wider context, the UK is under an obligation to ensure that 15% of the energy it uses is derived from renewable sources by 2020 and Northern Ireland must contribute to this wider objective as opportunities arise, furthermore it is no secret that the System Operator has concerns as to the impact of variable-output generation on stability of the electricity system. We therefore conclude that, where Land Bank sites are suitable for generation use, the Utility Regulator's objective should be to ensure that they are used for development of dispatchable, renewable generation.

Previous experience of auctioning for procurement of renewable generation was not overwhelmingly successful in terms of actual delivery; the competitive bidding process for NFFO procurement being criticised for incentivising speculative development proposals rather than promoting actual delivery¹. Whilst an expectation of payment in return for commercial use of the Landbank is reasonable, SSE believes that it is more important that sites should be returned to use, in a reasonable timescale, for projects that provide consumer benefit through;

- promoting effective competition in generation,
- improving security of supply, and

1 Wiser, R. 2002. Case Studies of State Support for Renewable Energy: "The U.K. NFFO and Ireland AER Competitive Bidding Systems". Lawrence Berkeley National Laboratory and Clean Energy Funds Network

- development of diversity and environmental-sustainability in energy supply.

Our detailed answers to the specific Consultation questions are based on the foregoing and are set out in the following section of this response.

Response to Consultation Questions

<p>Section 3.1 Q1 should these sites be offered for lease or sale for power generation or for any other purpose?</p>

Lease or sale

We believe that any Landbank sites that can be used for generation purposes should be offered for lease, rather than sale. This will ensure that the original objective of creating the Landbank is preserved and that these sites will always be available for generation. This approach is also most likely to incentivise delivery of actual projects. Sites that cannot be used for generation should be sold, unless some use is proposed that is supportive of the generation, transmission, distribution or supply of electricity.

We do not think it appropriate or in the best interests of long-term energy policy to offer the sites on the basis of maximising lease income. Rather, terms should reflect the commercial value of brownfield sites for industrial use, at the date of the lease. If this approach is infeasible, the commercial arrangements could be designed to align with current market values for such a development. In any case, lease rental should not be a significant criterion for bid acceptance, as this would merely replicate the most significant flaw in the NFFO process.

We believe that any potential surplus of lease income over actual costs should be used to offset the PSO burden on Northern Ireland electricity consumers.

Use solely for generation wherever feasible

The purpose of the Landbank and the reason it has been supported by the PSO for so long, has been to ensure that strategically-important electricity generation sites were preserved and available for future power projects. Given the need for new, dispatchable and sustainable generation to support long-term security of supply, it would be perverse now to dispose of these sites for any other form of development.

Given their previous use, proximity to strong transmission links and the future generation needs of Northern Ireland, permitting of Landbank sites for a return to generation use is

more likely to be achievable than in the case of greenfield sites. We therefore consider that Landbank sites should be used for generation, wherever feasible.

Each site to be considered separately

If preference is given to developers seeking control of multiple sites, there would be a risk of sub-optimal development as a result of internal capital allocation decisions and project prioritisation within the acquiring organisation. There would also be a risk of facilitating dominance within the Northern Ireland generation portfolio; an outcome that the original privatisation design sought to avoid.

By offering each site individually, the Authority will be more likely to achieve a balance of control and economically efficient project development across the portfolio of Landbank sites.

Each site should therefore be offered separately and there should be no advantage for a party expressing an interest in more than one site.

<p>Section 4, Q1 If, following consideration of responses, the Utility Regulator decides to instruct the release of the Land Bank sites to the market for generation purposes, what criteria should be used in assessing any proposals from bidders?</p>

At the initial selection stage, it is important that the Authority determines the types of organisations that will be capable of following the full process through to final selection and project delivery. This first step is essential, to avoid unnecessary cost being incurred by developers who will ultimately be unsuccessful in their bids. Therefore, while the assessment criteria must take due cognisance of the proposed development (to rule out those that do not meet basic requirements), we believe the assessment should focus on the developer's legal eligibility, technical capability and financial strength. This approach would also align with certain of the Authority's legal obligations.

Assessment criteria

If Landbank sites are released for generation purposes, then assessment criteria should seek to identify those developers most likely to deliver projects that are both required by the market and aligned with Northern Ireland sustainability objectives. They should also reflect the need to control dominance related to the ownership and control of generation assets in

the SEM generally and Northern Ireland in particular. We therefore propose the following categories of assessment criteria;

- basic legal compliance
- developer experience and capability to deliver,
- alignment of developer proposals with Northern Ireland policy objectives, the Authority's principal objective – including sustainability objectives, and
- control of market power.

Basic legal compliance

A basic assessment criterion must be that the Developer is legally competent to deliver the project; for example, is not barred by European unbundling requirements from owning generation.

Developer experience and capability to deliver

Criteria to measure delivery capability should include;

- Scale of the developer's business, turnover, gearing, free cash flow and ability to finance the proposed development.
- Organisational and staff experience that demonstrates technical capability to deliver projects of equivalent complexity to the proposal.
- Ability to provide sufficient insurance cover for delivery of a large scale energy project.
- Track record in development and environmentally-responsible operation of generation.
- Comparison of developer's publicly declared generation policies with actual performance.

Alignment of developer proposals with Northern Ireland policy objectives

Developers' proposals should be assessed on the basis of;

- Quality of technical proposal. Bidders must demonstrate that their proposals will utilise efficient technology which is proven, commercial and deliverable within a 5-year timeframe (ie, should not be a demonstration or R&D proposal)
- Environmental sustainability of the development.
- Dispatchability or otherwise of the generation technology.

Control of market power

The ability of any generator to exert market power in the SEM represents a risk to consumers. Bids should therefore be assessed, on a measure such as the HHI score, for the market power of the developer, following completion of the project.

Section 4.1, Q2 Respondents are asked if there are any further pre-conditions which proposals should meet before proceeding to the next

Acceptable developments must align with government energy policy; specifically the draft DETNI Strategic Energy Framework which contains a 40% renewable energy target for 2020. As a precondition for proceeding to the second stage of assessment, all proposed generation developments should therefore deliver diversity, sustainability and system benefits in addition to producing electricity.

In view of its unparalleled location in Northern Ireland, (adjacent to deep water port facilities) and the 200MW of large scale Biomass generation targeted by the draft DETINI Strategic Energy Action Plan for delivery by 2015, the Belfast West site should be considered only for Biomass power generation.

Section 4.1, Q3 Respondents are asked whether there are any further criteria which should be taken into consideration?
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In order to arrive at a final decision, the overall assessment process must also consider value to the wider community;

- The level of investment and employment generated by a proposal
- The carbon abatement value – a key measure of alignment with critical Northern Ireland energy goals and potentially a significant differentiator between bid proposals.
- Value of project to the local economy to stimulate investment and growth of indigenous industry/employment
- impact of ongoing O&M on the neighbouring community; for example, completeness of proposal in respect of the supply chain (ie for a Biomass proposal, evidence of fuel supply chain planning – a critical part of such a project) and arrangements for transporting fuel to site.

Finally and as previously highlighted, common commercial arrangements should apply to each site, irrespective of the successful bidder. Bids should not include site rental payment as an assessment criterion because;

- It introduces a short-term financial view, with the risk of selecting a sub-optimal project that delivers a lower lifetime benefit for customers.
- As with NFFO bids, it will encourage speculative proposals from parties focused on developing and selling ('flipping') the site(s), rather than delivering projects.