

NIRIG response to NIAUR Corporate Strategy 2019-2024

31 January 2019

The Northern Ireland Renewables Industry Group (NIRIG) represents the views of the renewable electricity industry in Northern Ireland, providing a conduit for knowledge exchange, policy development, support and consensus on best practice between all stakeholders. Committed to making a positive difference, we promote responsible development, support good community engagement and deliver low-cost electricity from onshore wind, tidal, solar and storage using our greatest natural resources.

We welcome the opportunity to respond to this consultation on the 2019—2024 draft Corporate Strategy. As our response refers to issues which require Departmental action, we are therefore also addressing this directly to DfE.

Overall, NIRIG welcomes NIAUR'S analysis of the future changes in the energy sector, including disruptive factors which necessitate a shift in strategy; Brexit, the energy transition, the move to 'smarter' networks and the timeline of the SEF coming to an end. We fully support the recognition of the importance of planning actively for greater decarbonisation.

We particularly welcome recognition of the low-carbon trajectory and the need for innovation, flexibility and new regulatory approaches. These reflect the global importance of clean energy, decarbonisation and a transition towards a more complex, flexible energy system. In this regard we also welcome the focus on facilitating 21st century networks, which will be important in ensuring greater consumer engagement, economic growth, low-carbon generation and innovation.

We note the policy vacuum in which this draft Strategy has been prepared, but welcome the acknowledgement of wider UK, European and global approaches to climate change. These approaches will also inform the forthcoming NI energy strategy. **Long-term policy certainty is needed to enable a clear, consistent long-term energy and decarbonisation strategy for Northern Ireland to 2030 and beyond.**

General considerations

We do not believe that existing legislation and the duties and obligations of NIAUR will fully enable Strategic Objective 1, 2 or 3. Existing policy-making structures and legislation require additional flexibility to enable future power system needs. We note that progress on policy development, such as rebate policy, has been stymied by the requirements for changes in legislation, which in other jurisdictions could be carried out through regulatory decision-making. Enabling 21st century networks

and a low-carbon future requires responsive regulation and fully-efficient markets. We therefore recommend a review of all energy legislation as soon as possible to ensure that it is fit for purpose.

This review should strengthen the sustainability duties of both NIAUR and DfE (as was consulted on, but not progressed in 2012)¹. “Protecting the interests of consumers of electricity” does not necessarily preclude the Utility Regulator and Department having significant regard to sustainability. However, the interests of consumers as defined in the Energy (NI) Order 2003 has the potential to prioritise short-term interests. A narrow interpretation could define the interest of consumers as the cost of electricity supplied year to year, which would not necessarily facilitate long-term, flexible and strategic planning and decision-making.

A review of the Energy Order should include amendments which enable the interests of existing and future consumers to be taken as a whole, i.e.

- their interests in the reduction of emissions of targeted greenhouse gases; and
- their interests in the security of the supply of electricity / gas to them.”

This approach would align more closely with the overarching policy framework set out by the Paris Agreement and underpinned by UK Carbon Budgets and the Climate Change Act.

Decarbonisation requires lower carbon emissions in heat and transport and electrification of these sectors is one possible route. The existing wording of the duties and obligations with regards to electricity and gas could lead act against the proposed Strategic Objective to promote markets that deliver effective competition, informed choice, and fair outcomes.

The duty regarding natural gas:

“to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland”,

contrasts with the primary objective with relation to electricity:

‘protecting the interests of consumers of electricity supplied by authorised suppliers’

Decarbonising the energy sector (SO 3) and promoting effective competition (SO 1) could be impacted where heat can be either gas-based or electrified if these energy sources are regulated with different purposes.

This review should include consideration of NIAUR powers to enable policy-making, similar to the powers it already exercises in its role in the SEM Committee.

¹ SEF 24: Consult and if necessary, legislate on DETI’s and UR’s statutory duties so that sustainability is given higher priority

Specific comments

1. Promoting markets that deliver effective competition, informed choice, and fair outcomes

This objective addresses two distinct aspects of the market: energy suppliers and energy market trading. Most success measures connected to the former include measurement metrics, whereas the latter (5&6) refer to 'efficient deployment' and 'efficient wholesale energy prices'. We would like to understand the definition of 'efficient' in this context.

Renewable electricity, particularly large-scale wind and solar, are the cheapest forms of new generation, and have a positive benefit on wholesale electricity prices. Delivering Strategic Objective 3 will therefore impact positively on key measures for strategic objective 1, although a supportive policy environment and close coordination between all stakeholders will also be important.

We believe that facilitating effective competition requires an additional outcome regarding improved competition between different types of flexibility, which may require reducing regulatory barriers to competition. A key aim should be to allow different forms of flexibility, including forms which will be developed in future, to compete against each other, and against more traditional solutions, within a market framework.

We suggest that an appropriate Key Success Measure could be:

New KSM 1 - increased access to the existing range of markets (capacity, wholesale, balancing and ancillary services), alongside new markets or revenue streams

This could facilitate competition between new types of flexibility (e.g. storage and demand-side response and new types of flexibility and other solutions (interconnection, generation, energy efficiency or network infrastructure).

2. Enabling 21st century networks

We welcome the key outcome regarding future facing network utilities that plan for the future and manage asset systems. Continued development of the transmission system - upgrading the existing infrastructure and the construction of new circuits - will be required to facilitate demand and generation connections in all parts of NI.

The UR's proposed key outcomes regarding improvement in overall network utilities performance and innovation by network utilities is also welcome. However, we request a clear definition of 'improving network utility costs'. Depending on timeframes and definitions, it could have the potential to restrict the other key NIAUR outcomes of innovation and an electricity network that accommodates more renewable generation (SO3). Furthermore, focusing on network utility cost may not reflect the reality that the best wind resources are still located in the West or the potential for offshore deployments. Many of these areas have insufficient network investment to maximise the renewables generation that is increasingly lowering wholesale costs (SO1).

Offshore deployments face hurdles in terms of subsea cables and their ownership. The 'Connection Arrangements for Offshore Generation Next Steps Paper' (December 2013) highlighted that a significant amount of work is required to allow connecting parties to take responsibility for the construction of their own connection assets, and that NIAUR will need to work with SONI, NIE and DETI to review and revise the framework to permit contestability in connections, longer term ownership and maintenance of the assets. In order to progress offshore deployments, we request that this proposed work is re-opened and continued.

We recommend an additional focus on coordination under SO2. NIEN and SONI must work together much more to deliver the best outcome for the system as a whole. This includes coordinated planning and operational processes, data management, and transparency, to enable efficient system decisions i.e. whether an investment at a transmission or a distribution level is in the best interests of consumers.

Key success measures

We believe that the success measures to fully enable 21st networks need to be expanded. An increased number of network stakeholders, decentralised activities and growing complexity of the network operations will most likely result in increased digitisation and requirements for visibility, transparency and controllability. 21st century networks are also those networks that will facilitate much greater decarbonisation, and in this sense Strategic Objectives 2 and 3 are linked.

KSM 1: All network utilities deliver asset management strategies and long-term network development plans

In general, this is welcome. However, these plans should require coordinated planning and operational processes, data management, and transparency, to enable efficient system decisions i.e. whether an investment at a transmission or a distribution level is in the best interests of consumers. Regulated monopolies will need to plan ahead, engage with new businesses, and explore fully the use of markets to solve issues. We therefore recommend an amendment to KSM1 as follows:

*New KSM 1: All network utilities deliver **coordinated** asset management strategies and long-term network development plans*

KSM 2: Innovation plans are delivered as part of price control reviews

We believe that innovation has been underfunded in recent SONI and NIEN price controls. In order to encourage the integration of innovative methods such as smart metering, energy storage, blockchain technology etc to optimise and balance system use, the removal of barriers to new entrants would be recommended to ensure more widespread implementation. NIAUR should include a review of barriers to innovation as a key action in its next Forward Work Programme.

We hope that the deployment of practical technologies such as HTLS conductors, underground, and offshore infrastructures could be introduced more readily by network operators in the future.

We furthermore believe that innovation should be facilitated more widely and strengthen the ability of third parties to propose potential network innovation projects. In that regard, KSM 2 could be modified as follows:

New KSM2: Innovation plans are delivered as part of price control reviews and a review of regulatory barriers to innovation by other stakeholders takes place

KSM 3: A review of electricity network tariffs is completed

While a review of network tariffs will be useful in potentially enabling a more efficient system, network tariffs are only one component of price flexibility. Flexibility will require better data availability and the rules and regulations to support an efficient, flexible energy system. New business models must also be facilitated to enable aggregators in the market, better understanding of the legal and commercial status of storage and exploring how to support all customers to participate in providing flexibility.

We believe that KSM2 and KSM3, while welcome, do not adequately enable the next phase of the energy transition. Network operators will likely require increased visibility over power flows on a real-time basis and shorter control cycles in order to maintain secure and reliable grid operation.

Data and its management will be key, including how the data is compiled, retained, stored, and shared with relevant stakeholders to enable them to make suitable development and investment decisions. Additionally, system services provide valuable support for energy system management and will require ever increasing level of information to maximise the use of the network. Increased data access, management and should also be mandated and monitored by an appropriate body.

We therefore recommend that NIAUR replaces the existing KSM3 with a more comprehensive KSM which could more fully remove barriers to smart technologies, enable smart homes and business and make markets work for flexibility. This would align with recent developments in GB, where BEIS and Ofgem together consulted on and produced a Smart Systems and Flexibility Plan.²

New KSM 3: With the Department for the Economy, develop a Smart Systems and Flexibility Plan

3. Enabling security of supply and a low-carbon future

Key outcomes

² <https://www.ofgem.gov.uk/publications-and-updates/upgrading-our-energy-system-smart-systems-and-flexibility-plan>

We welcome the following key outcomes as important enablers of UK, European and global climate targets, as well as the NI Executive's own targets of reducing greenhouse gas emissions:

- Efficient investment to support government decarbonisation targets
- Electricity network accommodates more renewables generation
- Promotion of energy efficiency and renewables technologies

Increased efficiencies have been referred to throughout the draft strategy, including increased efficiencies of ISEM, more efficient interconnector deployment, efficient wholesale energy prices, efficient investment and 'efficiently' accommodate more renewable generation. We would welcome clarity on the definition of efficiency across these, including what variables it takes into account (carbon emissions, timeframes, sustainability etc.).

Key Success Measures

KSM 1: Level of efficient investment in renewable generation to support government decarbonisation targets

This is a very positive KSM as it will enable lower wholesale electricity costs, decarbonisation and security of supply, particularly if supported by KSMs under SO1 and SO2.

KSM 2: Increased level of renewable generation, meeting electricity demand

As above, we strongly welcome this KSM as it will enable lower wholesale electricity costs in the short, medium and long-term, decarbonisation and security of supply, particularly if supported by KSMs under SO1 and SO2.

KSM 3: Facilitate delivery of the second North-South interconnector

We strongly support this KSM as it will deliver more effective markets, lower-carbon electricity and security of supply.

KSM 5: Along with the Department for the Economy, Clean Energy Package requirements are met by 2025

We welcome this KSM, although we recommend that specific metrics be applied. The Clean Energy Package contains a binding renewable energy target of at least 32% and an energy efficiency target of at least 32.5% - with a possible upward revision in 2023. NIRIG's own calculations demonstrate that a 70% renewable electricity target by 2030, which includes a contribution to decarbonised heat and transport through electricity vehicles and heat pumps, still falls short of 32% renewable energy for NI. We also suggest a modification to KSM 5 which would acknowledge the all-island nature of the electricity market and the functioning of the electricity network.

New KSM 5: Along with the Department for the Economy **and in discussion with the Department for Communications, Climate Action and Environment, Clean Energy Package requirements are met by 2025, including 32% renewable energy by 2030**

Other comments

Regulatory approach

The draft Strategy refers to new regulatory approaches, which is positive as a step to enabling a more fundamental energy transition. However, new regulatory approaches are not captured in the key outcomes or KSMs. NIAUR has also acknowledged the governance challenges that lie ahead with the entrance of a new range of potential players. It would therefore be prudent to have more focus on governance in this draft strategy, with appropriate success measures.

The growing complexity of network operations may lead to increased digitisation, therefore the role and functions of system operators in the context of digitisation in facilitating 21st century networks need to take this into account, and expansion or clarification of their roles is required.

Given all the above, we again recommend that in our recommended review of duties and obligations of NIAUR and the Department (and other relevant bodies) that there should be some specific proposals regarding new approaches to regulation and governance.

Reporting

We are concerned that one third of NIAUR's KPIs in its Corporate Strategy 2014-2019 will not be achieved. We also note that a number of Strategic Energy Framework Strategic Objectives that fall to some extent within NIAUR's remit have not yet been completed. For example:

SEF 20: Work with NIAUR to develop a cost effective smart metering solution for Northern Ireland.

SEF 36: Ensure that electricity grid development plans are future proofed to facilitate a more decarbonised energy mix beyond 2020

We therefore recommend more effective progress reporting against both NIAUR's own objectives and improved regulatory reporting on the delivery of government targets. This could take the form of a progress report, where NIAUR is expected to report annually on progress, justifying decisions and, where progress is not on track, explaining why and whether mitigating action is needed.

Furthermore, and for Departmental consideration, a 'Strategy and Policy Statement' could give clear direction to the Utility Regulator regarding the strategic aims of Government and focus on the policy outcomes that the Utility Regulator can contribute to. Such a statement could help strengthen strategic and sustainability considerations in decision making. This could ensure that NIAUR:

- incorporates the cumulative cost of carbon in the atmosphere when making decisions;
- incorporates the price of lost energy production, cost of project delays, value of wider momentum and confidence in the industry, etc., when making decisions; and,
- takes a holistic view of risk/reward, rather than coming from a minimal-risk perspective.

We welcome the opportunity to respond to NIAUR's Corporate Strategy and look forward to further engagement.

Meabh Cormacain

NIRIG