Version numbers added by RHI Taskforce Final 5/4/17

BRIEFING FROM 6 FEBRUARY 2012

General

ELECTRICITY PRICES

- Power NI increased its electricity prices by 18.6% from 1st October 2011. Airtricity also increased its prices to track the Power NI price increase, but offers tariffs at up to 14% below Power NI prices.

- Budget Energy and Electric Ireland have also recently entered the domestic electricity supply market, offering discounted tariffs compared to Power NI.

- The Utility Regulator is keeping tariffs under regular review.

- Beginning to see some downward movement in retail electricity and gas prices in GB, but no formal electricity tariff review is planned for Northern Ireland at present.

- Retail electricity costs are heavily influenced by wholesale gas prices in particular. The mild weather in the early part of the winter saw wholesale gas prices falling, but the more recent very cold weather affecting much of Europe and Russia has see wholesale gas prices becoming more volatile. Hopefully prices will stabilise as we move out of the winter period.

TARIFF REVIEWS

- The Utility Regulator has established a process for energy tariff reviews whereby a series of meetings are held with the respective energy supply company, the Utility Regulator, the Consumer Council and the Department. This allows all parties to consider the issues around the tariff review process, scale of tariffs proposed, and timescales for announcement and effective date for the new tariff.

- It is important to note that the Utility Regulator has the statutory role in respect of the detailed scrutiny of regulated tariff proposals by the incumbent suppliers such as Power NI for electricity, and gas suppliers such as Phoenix Supply in Greater Belfast, and firmus energy in their 10 towns licensed area.

- The tariff review process established by the Regulator provides for questions/ comments to be made by DETI and the Consumer Council, but ultimately the final tariff considerations are between the energy suppliers and the Utility Regulator.

SINGLE ELECTRICITY MARKET

- The Single Electricity Market (SEM) created a wholesale electricity market on the island which ensures that there is competition between generating stations and the most efficient generators will be run most often. This ensures that generation prices will be as low as they can be.

- The Utility Regulator's SEM market monitoring unit scrutinizes the bids of all generators. The market has been created with a transparent price (the System Marginal Price ''SMP'' half hourly price) and a guaranteed place for new entrant suppliers to purchase energy from.

- In a bilateral market like in Great Britain, an electricity supplier must get a power purchase contract with a generator or it will not be able to purchase the generation it needs to supply customers (except at very high balancing prices – whereas the SMP half hourly price is the same for every supplier). This has restricted entry in GB for those suppliers without generation contracts.

- A small supplier without any generation has just entered the Northern Ireland market as it can simply purchase the generation it needs for its customers from the SEM pool and change tariffs as those generation costs move up and down.

- Opening the retail electricity market has seen entry by new suppliers with Airtricity and Budget Energy offering significant

consumer discounts. Electric Ireland is also making a phased entry to the domestic electricity market.

- All electricity suppliers pay the same generation and network costs which make up 90% of the final price.

- However electricity suppliers could make big profit margins on top of the costs of supply if they were not competing properly and were left unchecked. This is why a price control by the Regulator on the biggest or incumbent supplier provides the maximum price that can be charged and stops excessive profits. Power NI's price control has allowed them a margin of 1.7% of turnover. Ofgem reported in their probe of the GB retail market that supplier margins on electricity tariffs were between 4% and 10%.

- It is EU policy to have larger regional energy markets and has set a timescale for a new France- UK and Ireland (FUI) wholesale electricity market by 2014.

SECOND ELECTRICITY NORTH-SOUTH INTERCONNECTOR

- The Planning Appeals Commission has set a revised date of 6 March 2012 for the public inquiry into NIE's application to build a second North-South electricity interconnector (Tyrone/ Cavan). This will give people more time to consider the environmental aspects.

- The UK and Republic of Ireland Governments have recently issued reports on overhead vs. underground electric lines. The RoI report specifically looked at the Meath-Tyrone electric line while the study commissioned by the UK Government was to provide an authoritative and independent point of reference for their infrastructure planning commission in evaluating planning applications for new electric lines. Both reports found that underground costs are higher than overhead with the RoI report suggesting three times the cost. The UK report suggested almost a five times differential.

- This strategic grid infrastructure project is critical to meeting the SEF 40% renewables target. It will allow for greater transfers of electricity between North and South and vice-versa, and help to maximise the benefits of renewable generation. Environmental concerns will be fully considered as part of the inquiry.

- Recent faults on the Moyle interconnector between Northern Ireland and Scotland illustrate the need for a robust and reliable transmission and distribution system. This is critical if we are to support economic growth and attract investment in high tech companies that need a constant and reliable electricity supply.

- Lack of a second electricity link with the Republic of Ireland results in costs due to transmission constraints of some £18m – £25m a year for Northern Ireland and Republic of Ireland consumers (some £7m to NI consumers).

- The new line is currently estimated to cost around £160m, with some £84m attributable to Northern Ireland, to be funded by system usage charges and in turn electricity consumers over 40 years. Subject to the outcome of the Planning Inquiry, the new electricity link could be operational by 2016/17.

CARBON PRICE FLOOR

- The UK's 2011 Budget introduced a UK-wide Carbon Price Floor environmental tax from April 2013 as part of Electricity Market Reforms. The aim is greater security of supply and to help the UK meet its 2050 carbon reduction targets.

- The tax was designed for the GB market to reduce carbon emissions and replace a significant part of its ageing generation fleet over the next decade with renewables and low carbon generation - for example, nuclear.

- The tax will make wholesale electricity generated in Northern Ireland more expensive and make it harder to compete with Irish based generators which do not have to pay the tax.

- Working with Treasury to resolve the problem of imposing the tax on Northern Ireland when evidence is showing that it will not deliver the same range of benefits as those identified for GB.

- This will be a long running process over the next year which will need to be considered as part of a larger package of measures under discussion with Treasury, including Corporation tax.

- Existing incentives in place in Northern Ireland are providing sufficient growth in renewable generation to meet Northern Ireland's 40% renewable electricity target.

GAS PRICES

- Phoenix Supply increased its gas prices in Greater Belfast by 39.1% from1 May 2011. Phoenix Supply announced a xx % xxxxxx in gas prices on xx 2012 [TBC]

- Firmus Energy increased in gas prices in its 10 Towns licensed area by 28.4% for domestic consumers and 30.2% for smaller business customers from 1 October 2011.

- In the Greater Belfast gas market where Firmus Energy is a competitor with Phoenix Supply, Firmus increased its gas prices by some 35% from 1 October 2011, but offers a 10% reduction against Phoenix Supply tariffs for the first year and 5% for the second year for new customers. Firmus Energy is expected to track any change in Phoenix Supply gas prices.

- Firmus is able to charge different tariffs in its 10 Towns gas market compared to those it charges in Greater Belfast as the company has exclusivity in the 10 Towns where it is building a new gas market, while in Belfast it competes against Phoenix Supply and has to charge the published gas distribution charge for that area.

- All gas customers in Greater Belfast, including all pre-payment meter customers, can switch suppliers if they wish to do so.

- Customers who have purchased gas for use in a pre-payment meter in advance of the prices increases will be able to benefit

from the gas purchased at the lower price, until they next ‘’top-up’’ the credit on their meter.

- Firmus currently has gas supply exclusivity in its 10 Towns licensed area but it will be open to competition for larger business users of gas from Oct 2012 and for SMEs and domestic consumers from April 2015.

Firmus Energy Prices after increase

Based on 12,232 kWh per year, (**Pay as you Go**)

10 Towns Area

Now £504 per year, £9.70 per week, - increases of £112/year and £2.15/week.

Belfast

Now £546 per year, £10.52 per week, - increases of £143/year and £2.75/week.

Based on 12,232 kWh per year, (credit customer with **Direct Debit).**

10 Towns

Now £509 per year, £9.79 per week, - increases of £116/year and £2.22/week.

Belfast

Now £535 per year, £10.28 per week, - increases of £145/year and £2.79/week.

Phoenix Prices after increase (Update Required)

Based on 12,232 kWh per year
Greater Belfast/Larne Area

Now £603 per year, £11.59 per week, – increases of £171/year and £3.28/week.

GAS NETWORK EXTENSION

- I am encouraged by the ongoing work by Phoenix Natural Gas in the Greater Belfast gas licensed area and by *firmus energy* in the 10 towns licenced area outside Belfast to provide new natural gas networks and connect new customers.

- My Department issued a 12 week consultation which ended on 30 September 2011, inviting views on the potential for extending the natural gas network to areas currently without gas, such as the West of Northern Ireland and East Down.

- 27 acknowledgements and responses to the consultation were received, and the Department has provided the Committee with a report on the views received.

- There are great benefits to be gained by bringing gas to new areas, including greater fuel choice, enhanced energy security of supply, reduced CO2 and other emissions, lower business costs, pre-payment gas meters to help with alleviating fuel poverty, and the employment benefits from gas extension.

- Taking natural gas to 6 towns in the West such as Dungannon, Cookstown, Omagh, Magherafelt, Strabane and Enniskillen as a single project has been estimated to cost up to £170million (to provide gas transmission and distribution networks).

- Ultimately, further extension of the natural gas network will depend on the availability of sufficient gas loads in respective towns and willingness of a gas company to undertake construction of the new network.

- The Department is continuing to work with the Utility Regulator in relation to licensing and related issues such as project funding to take forward gas network extension.

SHALE GAS

Award of an exploration licence to a company to carry out 'fraccing' for shale gas in Fermanagh

- DETI has the powers to grant petroleum licences in Northern Ireland and it has done so since 1965. Any future discovery and development of oil and gas reserves in Northern Ireland has the potential to bring benefits to the Northern Ireland economy in terms of inward investment and jobs, tax revenue, and security of energy supply.

- Whilst there are examples from the USA where pollution of water supplies by gas has been attributed to 'fraccing', shale gas exploration and production now provides about 30% of total gas production and can be carried out without any risk to surface or groundwaters, provided that industry best practice is adhered to.

- The petroleum licence gives the company exclusive rights to 'search for, bore for and get' petroleum in the licensed area but this is subject to the company obtaining additional consents or permits to carry out operations such as drilling exploration wells.

- Although the company, Tamboran Resources, intends to carry out exploration drilling for shale gas, using the hydraulic fracturing process, the firm work commitments in its licence do not extend to drilling an exploration well. The company has a 'drill or drop' well commitment which means that they are required to inform the Department before the end of the third

year of their licence if they wish to drill a well - if not, they must surrender or 'drop' the licence.

- This allows the company to undertake preliminary technical studies to further define the focus of their exploration and to engage with regulatory authorities and the local communities to explain their plans and ascertain areas of concern that they may need to address before submitting an application to drill.

- A deep exploration well with a ‘’fraccing programme’’ would be subject to a number of permits from regulatory authorities such as DETI, Planning Service, NIEA and the Health and Safety Executive.

Measures being taken to prevent damage to the environment

- The Department of the Environment, through the NIEA, has primary responsibility for the protection of the environment but DETI will be working with the other regulatory authorities to ensure that the company meets the best industry standards for all their exploration activities.

- These standards will take into account recommendations from recent and ongoing studies by the New York State authorities and the Environmental Protection Agency in the USA. (DETI officials are already in discussions with their counterparts in London and Dublin).

- Concerns have been raised about the potential for the chemical additives used in fracturing fluids to cause pollution to the

groundwater and surface waters. The regulatory controls applied to any fraccing operation will be designed to prevent this happening – in addition, Tamboran Resources Pty Ltd has stated publically that it will not use chemicals in their (proposed) fraccing operations.

Recent US Environmental protection Agency report linking fraccing to water pollution in Pavillion gas field, Wyoming

- The report findings confirm the opinion of NI regulators that regulatory control must be sufficiently robust to prevent contamination of the aquifers.

- The US EPA have stated that the findings apply only to the Pavillion gas field and are not applicable to shale gas operations elsewhere in the USA. The combination of adverse geological conditions and inadequate operating standards are specific to this case.

- In the Wyoming situation, gas is being produced and fraccing has been carried out in the **same geological formation that provides drinking water** to the local residents. In addition, the gas wells were not completely isolated from the water well zone by surface steel casing and the casing installed was not properly cemented in place. In Fermanagh any fraccing zone would be separated from near surface groundwater by thick impermeable rock units, and the casing and cement specifications would be much higher.

Suspension of ‘’fracking’’ operations near Blackpool following two earthquakes

- Two minor earthquakes, which were felt by a small number of people but caused no damage, happened close to where the company (Cuadrilla) was carrying out 'fraccing' operations.

- Such small earthquakes, which pose no danger to the public, are very rarely associated with “fraccing” but, in the Blackpool case, the timing and location suggests a link with the “fraccing” operations.

- These operations have been suspended, after discussion between the company and the regulatory authorities, and DECC will make a decision on whether the ‘fraccing’ can resume **at this site** after its panel of independent experts has reviewed the report of the investigations into the seismic tremors.
- DETI will require Tamboran Resources to install a seismic monitoring network in their licence area in advance of any application to drill so that they can monitor seismic activity in the area before, during and after any 'fraccing' operations (in the event that a drilling application is received and approved) - we shall also take note of any recommendations DECC may make.

ETI COMMITTEE INQUIRY INTO RENEWABLE ENERGY

- The 'Report on the Committee's Inquiry into Barriers to the Development of Renewable Energy Production and its Associated Contribution to the Northern Ireland Economy' was debated in the Assembly on 14 February 2011 and launched on 17 February.

- The report includes 25 recommendations which focus on a number of Departments and bodies as well as the Executive. Ten are for DETI to take forward, two are Executive matters and the remainder are spread across Invest NI, DOE, DFP, DSD, DRD, DARD and NIAUR.

- Our Minister responded to the Committee on 27 June on behalf of all the departments involved. 20 of the 25 recommendations were either accepted or partially accepted, one is under consideration, as the Department continues to monitor the staffing of Energy Division in light of its budget settlement and competing departmental pressures, and four were rejected.

- The Committee requested additional information on 6 July following consideration of the initial response. Most of the information was provided through DETI on 11 August. An update, reflecting developments since 11 August, including input from other departments was provided on 21 November.

- Significant progress has been made in many areas including:

- the inclusion of interim targets for the percentage of renewable energy consumption and renewable heat in the Programme for Government;

- the launch on 3 October 2011 of a new brand – 'Energy Wise', for all Government funded sustainable energy messages;

- work on analysing the impact of the Electricity Market Reform proposals on Northern Ireland; and

- the development of the Northern Ireland Heat Incentive.

- Other recommendations regarding energy vires, the development of a Sustainable Energy Action Plan, grid development and planning issues will be progressed through the Sustainable Energy Inter Departmental Working Group (SEIDWG).

NIRO SUPPORT FOR RENEWABLES

- The NIRO supports a wide range of technologies and sizes – from domestic solar PV panels through to large wind farms which has proved very successful.

- Since the introduction of the Northern Ireland Renewables Obligation in 2005 renewable electricity generation has increased from 3% to approximately 12% now.

- In 2009/10 there was an almost 30% increase in the number of Renewables Obligation Certificates issued in Northern Ireland over the previous year. This compares with a 20% increase for Wales, 14% for Scotland and 8% for England.

- We continue to ensure that NIRO remains flexible to the needs of local generation.

- In 2010 we increased support for electricity generated from small scale onshore wind, hydro and solar.

- In 2011 we increased support for electricity generated from anaerobic digestion and we are starting to see the first of these projects coming through.
- Consultation recently ended on proposed changes in 2013 – including 1 ROC increase for solar PV, retention of landfill gas ROC and 5 Rocs for wave and tidal.

- However, a UK-wide review of banding levels recommended a reduction for a number of technologies, including large scale onshore wind from 1 ROC to 0.9 ROC, to reflect changes in technology costs.

ELECTRICITY MARKET REFORM (EMR)

- Electricity Market Reform (EMR) is the biggest change to the market since privatisation and will transform the UK's electricity network. The Coalition Government is keen to see the EMR proposals proposal implemented across all of the UK.

- It is important that any of the EMR measures which are UK-wide take account of the different energy market in Northern Ireland and, in particular, the Single Electricity Market.

- That is why my Department has been working closely with the Department of Energy and Climate Change (DECC) to ensure that energy matters, which are fully devolved to Northern Ireland, are properly respected.

- I have has sought assurances from Whitehall that if this Assembly agrees to the introduction of a UK-wide FIT in Northern Ireland then the costs associated with its operation are spread across all UK consumers as currently happens with the NIRO.

- The recently closed consultation on changes to the NIRO included a number of proposals including closing the NIRO to new generation in 2017 and introducing a UK-wide Feed-In Tariff for large scale renewables.

- I will make an announcement shortly following consideration of consultation responses and ongoing discussions with DECC.

Background

1. The EMR contains four main energy policies:

   Carbon price support: - this would provide a higher tax on fossil fuels used for electricity generation to strengthen carbon price signals to investors (separate briefing provided)

   Feed in Tariffs with contracts for difference: these would be long term contracts that would increase clarity of long term revenue for all forms of low carbon generation: renewables, nuclear, and carbon capture and storage.

   Capacity payments: these are retainer payments for flexible plant and demand side resources that will provide a guaranteed level of spare generating capacity to ensure continued security of supply as we make the transition to a low-carbon generating mix. NI has its own capacity mechanism so the EMR proposal will not apply here.

   Emissions Performance Standard: this would provide a back-stop regulation that will ensure no new investment in unabated (i.e. without carbon capture) coal plant. DECC is keen for this to be UK-wide and DETI is working to ensure any EPS takes account of NI-unique issues such as the SEM.

2. The proposal to introduce a Feed In Tariff with Contract for Difference (FIT with CfD) was confirmed in DECC's July White Paper. Since then, discussions with DECC have been ongoing on how the FIT CfD could work in NI under the SEM and the recent CEPA study confirmed that it could work here. These discussions are also considering how the FIT CfD administrator (National Grid) can operate in NI.

3. A UK-wide CfD will be introduced in DECC's Energy Bill and be subject to a Legislative Consent Motion in the Assembly later this year.

RENEWABLE ELECTRICITY TARGETS

12% PfG target by 2012

- PfG target of 12% renewable electricity consumption by 2012.

- We are confident that we will meet this target given the number of applications for renewable energy plants currently in the planning system.

- The Department receives data on renewable electricity generation on a monthly basis and from this information it is useful to note that 2011 was a very good year for renewables generation:
    - We have had a number of months where renewables generation significantly exceeded 12% including as recently as December – almost 19%
    - The figure for the period April 2011 to end December stands at almost 14%
    - The rolling 12 month average to end December is 12.5%%

- Majority of renewables generation is from onshore wind – we did have some quiet months over the very cold winter.

- Starting to see increasing levels of non-wind renewables in technologies such as anaerobic digestion and biomass CHP.

40% target by 2020

- The 40% target equates to approximately 1400-1800 MW of renewable generation by 2020.

- The majority will be met by on shore wind.

- NIAUR has approved expenditure to allow clustering and upgrade of the 110kV network to facilitate approximately 800MW of on shore wind by 2017 and some off shore capacity – this equates to approx 20% renewable electricity consumption.

- Further reinforcement of the 275KV network is required to accommodate more on shore wind and large volumes of off shore generation which are required to meet the 40% target.

- NIE /SONI have not yet submitted proposals for 275kV reinforcement to the Regulator. This is major infrastructure and will, in all reality, be subject to the same planning issues as the N-S interconnector.

- The Utility Regulator is responsible for the scale and magnitude of grid development – however without additional reinforcement to the 275 kV network the 40% target cannot be met.

- The changes to the NIRO for small scale wind and anaerobic digestion have resulted in increased volume of these technologies – this generation will connect to the distribution network (33kV and below).

- The distribution network requires significant upgrade quickly to allow connection of this magnitude of decentralised generation.

- DETI have established a grid sub group of the SEIDWG which will work with the Regulator, SONI and NIE to facilitate grid development in Northern Ireland.

STRATEGIC ENERGY FRAMEWORK – 40% RENEWABLES TARGET

- Electricity prices depend on wholesale market prices which are predicted to continue to rise in the period to 2020.

- The cost to consumers of renewable electricity to 2020 will depend on a number of factors, including the exact mix of technologies at that date.

- DETI has estimated that the combined cost of renewable electricity installations, together with the cost of the grid investment necessary to meet the 40% target, could be between £49 and £83 per household on an annual basis at current prices.

- These costs would only arise incrementally however as new grid and new generation is installed.

- In the longer term having a higher percentage of our electricity produced from renewable sources will increase security of supply and insulate us against further wholesale price rises.

FEED-IN TARIFF

Non-introduction of a Feed-In Tariff in Northern Ireland

- We did not introduce a small scale Feed-In Tariff at the same time as the rest of the United Kingdom because we did not have the necessary legislative powers.

- But, more importantly, I was concerned that the costs associated with introducing and administering a FIT could increase the cost to electricity consumers.

- It is important to remember that the costs of incentive mechanisms such as the NIRO and the FIT are ultimately borne by all electricity consumers.

Outcome of DETI study on the appropriateness of a Feed-In Tariff

- A joint DETI/Utility Regulator study undertaken last year concluded that both the current NIRO mechanism or a small-scale FIT would allow us to meet our 40% target by 2020.

- The study also concluded that the cost of meeting the 40% target would be more under a small scale FIT than under the NIRO.

- However, the decision by the Coalition Government in its Electricity Market Reform White Paper to move away from the Renewables Obligation completely by 2017 will have a direct

affect on the NIRO and will require a move to a FIT in Northern Ireland for both large scale and small scale electricity generation.

- A separate small scale FIT will be needed and the recent consultation on the NIRO sought views on this proposal.

Closure of the Renewables Obligation

- The Coalition Government has taken the decision to close the England and Wales Renewables Obligation to new generation from April 2017.

- After this date all new generation must be accredited under the new Feed-In Tariff with Contracts for Difference. A recently published study on behalf of the Department and NIAUR has concluded that the FIT proposed for Great Britain would work in Northern Ireland under the SEM.

- It also recommended that the NIRO should also close to new generation after 2017 if the England & Wales RO and Scottish RO close to new generation. My officials are working closely with counterparts in England, Scotland and Wales to ensure that transition from the various Renewables Obligations is consistent.

- It is important that those accrediting under the NIRO up until 2017 are assured of 20 years support – for that reason we will extend the NIRO from the existing 2033 end date to 2037.

NIRO banding review consultation

- A consultation on proposed changes to Northern Ireland Renewables Obligation banding levels from April 2013 has just closed.

- This followed a UK-wide banding review into changes in technology costs and potential deployment levels following the introduction of banding in 2009.

- The government response to the NIRO consultation will be issued in due course which will confirm the new banding levels from 1 April 2013 subject to approval by the Assembly.

- The NIRO consultation also included some questions on EMR, therefore it is my intention that the government response will also include a statement on the way ahead for Northern Ireland in relation to EMR.

RENEWABLE HEAT INCENTIVE FOR NORTHERN IRELAND

- DETI is committed to developing the renewable heat market in Northern Ireland as there are many benefits in doing so such as increased fuel security, reduced carbon emissions and the opportunity in this sector for ‘green’ jobs.

- The Strategic Energy Framework includes a target of 10% renewable heat by 2020. This is a stretching and challenging target considering the current level of renewable heat is around 1.7%.

- My Department consulted on proposals for a Northern Ireland Renewable Heat Incentive over the summer. The consultation sought views on a range of measures proposed by the Department of Enterprise, Trade and Investment aimed at developing the local renewable heat market.

- Whilst the RHI was generally welcomed as the most appropriate method for incentivising the local renewable heat market a number of issues were raised by stakeholders that required further consideration. My Department has recently been carrying out further analysis on the tariffs, banding and technologies within the RHI, with a view to finalising proposals shortly.

- Her Majesty’s Treasury (HMT) has allocated £25m for a Northern Ireland RHI, should one be introduced, over the current budget period.