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Cc: [Thomson, David](#); [Frazer, Fred](#); [Stevenson, Bill](#); [Clydesdale, Alison](#); [McCutcheon, Joanne](#); [Harris, Michael](#); [McAllister, Susanne](#); [Neth_Energy](#)
Subject: ETI Committee Briefing - Economic Strategy - Energy Response
Date: 03 December 2013 11:13:42
Attachments: [image003.jpg](#)
[ETI Committee Briefing - NI Economic Strategy - Energy Input.DOCX](#)

Susanne,

Please see attached Energy Division input to Minister's briefing pack on the NIES Monitoring Report.

We will of course keep an eye to the Chancellor's Autumn Statement on Thursday and provide additional input as and where necessary.

Thanks

Paul.

From: McAllister, Susanne
Sent: 27 November 2013 15:21
To: Tourism Policy Email (DETI); Telecoms Policy E-mail (DETI); Neth_Energy
Cc: EPDAdmin; Pyper, Alistair
Subject: (HOBS - 3 DEC) ETI Committee Briefing - Economic Strategy

Afternoon

The Minister is providing an oral briefing to the ETI Committee on 12 December on the NI Economic Strategy (NIES) Annual Monitoring Report. In order to allow us to prepare briefing, I would be grateful if you could provide us with detailed lines to take on your specific NIES actions and any other pertinent issues that the Committee may raise on foot of discussion of NIES Annual Monitoring Report.

Please return inputs to EPD Admin by close of play Tuesday 3rd December.

Kind Regards

Susanne

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ISSUE: MARKET INTEGRATION (NIES Commitment E8)**Lines to Take**

- Options analysis on new market design now underway and led by the Regulators;
- My Department working closely with the Department of Communications, Energy and Natural Resources in RoI, the Department for Energy and Climate Change in GB and the three Regulatory Authorities (Northern Ireland Authority for Utility Regulation, Commission for Energy Regulation and the Office of Gas and Electricity Markets) on respective arrangements for coupling of markets;
- Final High Level Design anticipated August 2014 to ensure Single Electricity Market (SEM) is compliant with EU internal market for electricity by 2016;
- Process of options analysis is inclusive, with representation across energy and business sectors on High Level Design Review Group;
- Options analysis will include qualitative and quantitative assessment of costs and benefits;
- I have made clear to the Utility Regulator that I expect specific analysis of impact of the new market design from a Northern Ireland perspective, given current high energy costs for consumers (business and domestic).

ISSUE: GRID STRENGTHENING (NIES Commitment E23)**Lines to Take**

- Work progressing to examine opportunities to use funding under the European Regional Development Fund (ERDF) 2014-2020 to deliver grid strengthening works critical to support the integration of higher levels of renewables onto the grid;
- Up to £50 million funding available, which would lever similar investment from Northern Ireland Electricity (NIE) under approval from the Utility Regulator;
- Detailed discussions underway with NIE, Regulator and the System Operator for Northern Ireland (SONI) on suitable project proposals and delivery arrangements;
- State Aid paper prepared for submission to European Commission in December 2014 seeking approval to use ERDF funding;
- There are a series of procedural steps to go through before any project can be implemented – these include the engagement with the Commission, cost benefit analysis of options, internal approvals, formal designation of the project under the next ERDF programme and agreement of governance arrangements;
- Aspects of this work are also impacted by the ongoing NIE price Control (RP5) and the Competition Commission's Final Determination is not expected until February 2014;
- Anticipate that any resulting project is likely to commence late-2014

Background

1. DETI European Support Unit is responsible for development of the ERDF programme and has discussed, tentatively with the European Commission proposals put forward by Energy Division to use funding to bring forward investment in grid to support Executive targets for 40% renewables energy mix.
2. The Commission is understood to have reacted positively to high level proposals and work is now underway to agree a suitable package of projects, to a total value of approximately £100 million with NIE and the Regulator.
3. Proposals put forward by NIE as part of these discussions have focused on investment in the 11kV and 33kV networks to alleviate current capacity restrictions.

ISSUE: GAS NETWORK EXTENSION TO WEST AND NORTH-WEST**Lines to Take:**

- In January 2013, the Northern Ireland Executive approved government financial support of up to a maximum of £32.5 million towards extending the gas network to the main towns in the West and North-West of Northern Ireland.
- Towns to be connected to gas are Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Strabane, and Enniskillen/Derrylin.
- Department is currently working towards securing State aid approval in respect of the Executive grant, and has amended the Gas Licence Application Regulations and Gas Published Criteria to facilitate gas extension - new Regulations were made on 28 November 2013.
- The Utility Regulator aims to launch the gas licence competition by end of December 2013/ early January 2014 and award licenses in first half of 2014 for work to install gas networks to commence during 2015, though timetable is challenging.

Background:

1. Gas network extension should help to ensure that the benefits of natural gas in terms of cost savings, greater convenience and easier budget management can be extended to further domestic consumers in the West and North-West.
2. Further development of the natural gas industry in Northern Ireland will also help to improve companies' competitiveness and reduce energy costs for many public sector bodies at a time when finances are currently, and likely to continue to be, under significant pressure.
3. To provide new gas networks to areas where it is not considered economically viable would result in the addition of unacceptable network costs to consumer bills, thus over time making natural gas no longer an economic proposition as an alternative energy source.
4. Both Phoenix Natural Gas and *firmus energy* have increased the number of gas connections in their respective licence areas over the past year.

ISSUE: SECURITY OF ELECTRICITY SUPPLY**Lines to Take:**

- EU Emissions Directive impacts are loss of 510MW generation at Ballylumford power station and reduced running hours for Kilroot power station from end of 2015.
- A Joint Utility Regulator/ DETI paper on security of electricity supply in Northern Ireland was published 12 June 2013.
- The ETI Committee has taken evidence on security of supply from DETI officials, the system operator SONI, and AES who own and operate Ballylumford and Kilroot power stations. The Utility Regulator gave evidence to the Committee in early November 2013.
- The Utility Regulator and SONI are considering the amount of additional generation required with a further joint Utility Regulator/DETI paper to be published in early December 2013, and a decision on how generation requirements will be taken forward in early January 2014.

Background:

1. DETI, the Utility Regulator and, the NI system operator SONI, have been looking at options to put in place additional generation capacity to deal with the impacts of EU emissions legislation which will affect some conventional generation in NI from the end of 2015.
2. The Moyle electricity interconnector with Scotland continues to operate at 250MW (half capacity) due to a cable fault.
3. Mutual Energy, owners of the cable, is working on a temporary "Bi-Pole" option and undersea cable repair, either of which would see the Moyle restored to 450MW before end of 2014. There are plans to lay two new low voltage (LV) cables along the route of the existing cables to provide permanent restoration of the Moyle to full operating capacity by 2017.
4. The ETI Committee has been preparing a report on security of electricity supply, and an Assembly debate is planned for 9th December 2013 on these issues.

ISSUE: RENEWABLE ENERGY**Lines to take**40% target and the review of renewable electricity costs

- We continue to make steady progress towards the 40% target.
- At November 2013 we were at approximately 15% contribution from renewables.
- It will update and extend the analysis used to inform the setting of the 40% target in the SEF.
- The review will consider the incremental costs of meeting the 40% target; i.e. from the pre SEF level of 8% to the current 15% and then at the PfG target of 20% by 2015 and also at 25%, 30% and 40%.
- Consideration will be given to the cost impacts on a range of consumers – domestic, small scale industrial and commercial as well as the key large energy users.
- It will also set out the benefits in terms of CO₂, energy security and economic benefits.
- The review should be completed by mid 2014.

Renewables policy

- Work continues on the move away from the Northern Ireland Renewables Obligation (NIRO) to Contracts for Difference for large scale and a Feed-In Tariff for small scale renewables generation.
- Both will be in place before the NIRO's closure to new generation in 2017.
- The Onshore Renewable Electricity Action Plan (OREAP) was agreed by the Executive last Month.

- The OREAP includes a small number of actions to support the private sector's ongoing sustainable development of our onshore resources over the coming years.
- For example, we will work with DOE in relation to the monitoring and reporting of the cumulative effects of ongoing deployment of renewable projects across Northern Ireland and on the issue of community benefits.
- The NI Utility Regulator is responsible for timings and scale of grid development and we will continue to work with them, NIE and the System Operator to facilitate the development of a future proofed grid.

ISSUE: RENEWABLE HEAT INCENTIVE**Positive Lines to Take:**

- DETI launched the NI Renewable Heat Incentive (RHI) in November 2012; the RHI mechanism provides long term financial incentives for businesses wishing to install renewable heat technologies such as biomass, ground source heat pumps, solar thermal etc.
- The overarching objective of the RHI is to support the attainment of a level of 10% renewable heat by 2020 against a 2010 baseline position of 1.7%. The development of this sector can also have real benefits in terms of increased energy security, a reduction of CO₂ emissions and opportunities for 'green jobs'.
- The scheme is similar to the GB RHI however the policy is determined by DETI.
- The RHI tariffs are designed to cover all the additional costs involved in switching to renewable heat, in addition a rate of return of 12% is applied to make the tariffs more attractive towards investors.
- The scheme is administered by Ofgem and to date (2/12/13) they have received 72 applications and 54 systems have received accreditation. The combined capacity of the applications is in the order of 9.8 MW.
- The RHI presents a real opportunity for businesses to move away from conventional fossil fuels and enjoy the many benefits of renewable heating with an added incentive of significantly reducing their heating bills by receiving quarterly payments for the lifetime of the technology.
- The RHI, along with other policy measures being carried out by DETI (such as gas network extension) will ensure a more secure, sustainable and diverse heat market. One that isn't overly dependent on one fuel source and one where consumers have real choice between a range of different fuel types.
- DETI's support for the domestic market has so far been limited to the Renewable Heat Premium Payment (RHPP) scheme that offers grants to homeowners installing renewable heating – however this is changing with the development of Phase 2 of the RHI.

- The RHPP has been a useful 'primer' for the renewable heat industry and has seen significant interest with 1350 applications, relating to £1.9m of support offered and an investment in this sector of £6.2m. The capacity of the installed technologies in the domestic sector is 10.3 MW.

Defensive Lines to Take:*(Carbon Trust Loan issue re compatibility with RHI)*

- Understand that the issue of whether the Carbon Trust Loan Scheme is compatible with the Northern Ireland Renewable Heat Incentive is currently being considered by DETI under the RHI dispute resolution procedures. The outcome of the review will be published on the DETI website in due course.

(Tariffs lower in NI compared with GB)

- In general, tariffs are lower in Northern Ireland in comparison to GB because of the fact that energy costs are higher in NI and therefore the difference in costs between renewables and the most common heating fuel (oil) is much less.
- The tariffs are designed in the exact same way as GB and the same discount rates applied however as GB are seeking to move people away from natural gas (a less costly fuel than oil) a higher incentive is required.
- Customers in GB switching to renewables from gas will experience much lower ongoing savings than NI customers therefore when savings and RHI payments are considered the overall benefit to the consumer is the same.

(Delay in Phase 2)

- DETI recently consulted on plans to extend the RHI to domestics and increase the number of technologies supported under the non-domestic scheme. Following the consultation process DETI is finalising policy proposals ahead of implementation.
- Understand GB expect to have Phase 2 implemented by April 2014, that too is the DETI target, however the non-domestic elements of the proposals cannot be implemented until State Aid approval is received.