DFE-379366

From:	Dolaghan, Paul
To:	McAllister, Susanne
Cc:	Hepper, Fiona; Pyper, Alistair; Neth_Energy
Subject:	Request for briefing for David Sterling"s meeting with CBI Representatives - short deadline
Date:	29 January 2013 11:09:57
Attachments:	image002.jpg image004.png Doc1 (10).doc Brand-Derry-Londonderry.jpg firegameslogo.gif
Importance:	High

Susanne,

Please see attached Energy input to briefing pack which has been approved by Fiona Hepper.

Thanks

Paul.

Paul Dolaghan
Energy Co-ordination
Department of Enterprise, Trade & Investment
Netherleigh
Massey Avenue
Belfast, BT4 2JP
Tel: 028 9052 9514 (ext: 29514)
Textphone: 028 9052 9304
Web: www.detini.gov.uk

Please consider the environment - do you really need to print this e-mail?

From: McAllister, Susanne
Sent: 28 January 2013 13:27
To: Hepper, Fiona
Cc: Neth_Energy
Subject: Request for briefing for David Sterling's meeting with CBI Representatives - short deadline

Fiona,

David Sterling is meeting with representatives from CBI NI on Wednesday to discuss a range of issues including Energy.

The items suggested under 'Energy Situation' on the agenda for the meeting , as provided by CBI, are listed below.

Energy situation

- *Carbon Floor Price (and EU)*
- *Regulation*

- *RHI concerns*
- *Other issues*

I would be grateful if you could provide a maximum of one page of briefing on the issues above to include within David Sterling's briefing pack.

Apologies for the tight deadline but given the timing of the meeting, I would appreciate if you could provide a response by noon tomorrow.

Many thanks

Susanne

Susanne McAllister
Strategic Policy
Department of Enterprise, Trade & Investment
Netherleigh
Massey Avenue
Belfast, BT4 2JP
Tel: 028 9052 9478 (ext: 29478)
Textphone: 028 9052 9304
Web: www.detini.gov.uk

TOPIC: IME3- INFRACTION PROCEEDINGS
Lines to Take • My Department has already transposed the majority of obligations arising from IME 3 with the main implementing Regulations made by the March 2011 deadline • Remaining measures to complete transposition are on track and will be finalised within the April 2013 timeframe notified to the Commission • The UK is very supportive of the Single Energy Market, which brings benefits to consumers and business across the UK. • Commission press release of 24 January 2013 and the decision to refer the UK to the European Court of Justice in relation to the Electricity and Gas Directives are therefore regrettable, given the significant work already completed in the UK in relation to these Directives
Short Background Note: 1. In transposing the consumer protection measures within the Third Energy Package (IME3) into Northern Ireland law, consumers now have greater access to information which will help them regulate their energy use and allow them to quickly switch to more competitive energy suppliers. 2. The Utility Regulator has also recently put in place a range of licence modifications which will ensure that consumers are well informed to take decisions which will help manage their electricity and gas bills. 3. Although the Commission is discussing these matters in public, we have yet to see the detail of the referral letter. We are working closely with a range of parties including DECC, NIAUR and the Departmental Solicitor to progress outstanding issues

TOPIC: ELECTRICITY PRICES
Lines to Take • Welcome significant reduction of 14.1% in Power NI domestic electricity tariffs and between 10.4% and 15.1% for small business consumers from 1 October 2012. Understand that Airtricity, Budget Energy and Electric Ireland continue to offer further discounted tariffs • The tariff reduction, <u>at this point in time</u>, means that the Power NI domestic tariff is now <u>lower than the GB average</u>. Also, Regulator reports that NI prices are <u>now amongst the lowest in Europe</u> (lower than Netherlands, Portugal, Austria, Sweden, <u>Ireland</u>, Belgium, Spain, Italy, Germany and Denmark). However, long run trend is for electricity prices in NI to be approx 10% higher than those in GB • Recognise that high electricity prices continue to create problems for businesses and welcome Utility Regulator plans to analyse and compare prices in the non-domestic sector as part of 2013/14 work programme
Short Background Note: 1. Consultation on the Utility Regulator Draft Forward Work Programme 2013/14 closed on 18 January 2013. It is understood that a Final Work Programme will be published by 31 March 2013. 2. Complete information on electricity prices paid by large business and energy users in NI is difficult to obtain as many of these parties strike agreement with suppliers outside the tariffs process. 3. The UR proposes to collate and publish information of this nature and to examine the underlying components that contribute to the final costs paid by businesses. 4. At the MNI/CBI Energy Forum session on 18 January 2013 the Utility Regulator alluded to this study, suggesting that initial research points to NI electricity costs for large energy users being among the highest in Europe.

TOPIC: CARBON PRICE FLOOR
Lines to Take • Work by DETI Minister, supported by DFP Minister and officials has secured a commitment from the Chancellor of the Exchequer, through the Autumn Statement process, to exempt NI generators from CPF, subject to EU Commission confirmation of State aid position • DETI State aid analysis presented to HM Treasury to support initial engagement with Commission – aim to meet with Commission representatives early-February 2013 • As things currently stand, CPF will come into operation across the UK, including Northern Ireland, from 1 April 2013
Short Background Note: 1. Carbon Price Floor is a UK Government tax designed to stimulate investment in the GB BETTA market into low-carbon generating plant to achieve carbon emissions commitments. 2. Modelling and research commissioned by DETI shows a range of adverse impacts from implementation of the tax into the SEM which is a legally, structurally and operationally different market from BETTA. Impacts include increase costs to consumers, loss of competitiveness of NI generators and threats to security of supply. 3. These impacts have been acknowledged by HM Treasury and the Chancellor has announced intention to exempt NI generators from the tax subject to the European Commission confirming that there are no State aid issues. 4. DETI has presented compelling evidence to support the no state aid argument and will accompany HM Treasury officials to Brussels to make the case for exemption for NI generators

TOPIC: GAS NETWORK EXTENSION
Lines to Take • At its meeting on 10th January 2013, the NI Executive approved provision of government subvention of up to £32.5 million to facilitate provision of natural gas to the main towns in the West and North-West of N. Ireland. • Towns to have new gas networks include Dungannon, Cookstown, Magherafelt, Coalisland, Omagh, Enniskillen/Derrylin and Strabane. • The Utility Regulator is planning to launch a public consultation exercise in early 2013 on the proposed method for conducting a competition for new gas licence(s) in the West and North West area. • The award of new licence(s) for towns in the West and North-West is anticipated around the end of 2013. • DETI will continue to work with the Utility Regulator in relation to arrangements for taking gas to towns in East Down, which it has been agreed will <u>not</u> be provided with Government subvention.
Short Background Note: 1. In September 2012 DETI completed an Outline Business Case (OBC) on gas network extension to towns in the North and West, and to East Down, which was considered by the Department's Casework Committee and DFP Supply. 2. On 10 January 2013 the NI Executive approved provision of government subvention up to a maximum of £32.5 million to facilitate provision of natural gas to main towns in the West and North-West of Northern Ireland – overall, this project is expected to cost in the region of £200 million. 3. Work to provide new gas transmission networks for the West and North-West should commence during 2015, with gas distribution roll-out following this. **4.** DETI also needs to consider any State Aid issues for the project, to avoid any breach of EU rules.

TOPIC: GAS PRICES

Lines to Take

- Welcome that gas prices (for Airtricity Gas Supply and Firmus Energy) remained unchanged from 1 October 2012.

- Understand that Northern Ireland retail gas prices are currently around 10% below current prices in GB, and RoI prices are estimated to be around 17% higher than NI.

- A further gas tariff review is planned – any changes to apply from spring 2013.

- Welcome that the gas supply market in the Greater Belfast and Larne licensed area is fully open to competition and all gas customers can switch suppliers if they wish.

- In the 10 Towns licensed area outside Greater Belfast, the ''large industrial and commercial'' gas market opened to competition in October 2012, and the "domestic and small industrial and commercial" market will open in April 2015.

- Would like to see greater availability of natural gas in Northern Ireland to provide greater fuel choice and potentially lower energy costs for businesses and domestic consumers.

Short Background Note:

1. There are around 160,000 natural gas consumers in Northern Ireland, with the majority of these in the Phoenix Natural Gas licensed area in Greater Belfast. Firmus Energy has around 16,500 consumers in the 10-12 towns in their licence area outside Belfast.

2. Gas network extension proposals would see gas become available to some 34,000 new consumers in the West and North-West, and around 11,600 in East Down.

TOPIC: PHOENIX PRICE CONTROL
Lines to Take: • Welcome the publication in December 2012 of the Competition Commission's Final Determination on the price control for Phoenix Natural Gas. • Recognise that this has important implications for the Northern Ireland gas industry and local energy consumers. • Note that the Competition Commission's ruling has taken into account the fact that gas distribution is not yet a fully developed and mature industry in Northern Ireland. • Also note that the Competition Commission's conclusions take account of the interests of current and future consumers, appropriate incentives and returns to regulated companies, and the need to encourage further investment and development in the gas network in Northern Ireland. • Recognise the importance of regulatory certainty in energy markets which will support further growth of the natural gas industry in Northern Ireland.
Short Background Note: 1. The Competition Commission's final determination rejected the UR's proposal to reduce the Phoenix total regulated value (TRV) by £74.4 million. The CC believes that some proposals by the Regulator to reduce the Phoenix regulatory asset base should not be accepted because the current arrangements are in the public interest. Hence the CC considered that a £13.6 million adjustment relating to deferred capital expenditure and the funding of business rates expenses is warranted, however no change to the Phoenix rate of return of 7.5% was proposed. 2. The Utility Regulator's price control proposals would have seen a small decrease in average household gas prices of around £1 per year, while the CC determination will result in an average increase in bills of around £11 per year. Phoenix proposals would have resulted in increases of around £24 per year for household gas bills.

TOPIC: ELECTRICITY MARKET REFORM
Lines to Take: • On 22 May 2012, I announced that Northern Ireland would implement a number of the UK-wide Electricity Market Reform (EMR) measures. • This includes: - Closure of the NIRO to new generation from 1 April 2017 - Introduction of a UK-wide Feed-In Tariff with Contracts for Difference - Administration of the Contracts on a UK-wide basis - Emissions Performance Standard for any new coal-fired power stations. • My May announcement followed approval by the Executive for DETI to table a Legislative Consent Motion (LCM) in order to extend powers for electricity market reform to Northern Ireland via the DECC 2012 Energy Bill. • The Motion is due to be debated by the Assembly in February.
Short Background Note: 1. The Northern Ireland consumer base cannot afford to subsidise a Northern Ireland only incentive mechanism. 2. A UK-wide mechanism, funded by all UK consumers, is the best approach for Northern Ireland. 3. We have received assurances from the DECC SofS that if the Assembly agrees to the introduction of a UK-wide FIT in Northern Ireland then the costs associated with its operation will be spread across all UK consumers as currently happens with the NIRO. 4. DETI has worked closely with DECC and the Utility Regulator to make sure that the EMR proposals can work in Northern Ireland.

TOPIC: FEED-IN TARIFFS (FIT CFD/SMALL SCALE FIT)
Lines to Take: • A Feed-In Tariff with Contracts for Difference will be used to incentivise large scale renewable electricity generation when the Renewables Obligation closes to new generation in 2017. • A contract for difference is a long term contract that provides stable revenues for low carbon energy projects at a fixed level known as a strike price. These contracts will help developers to secure the large upfront amounts of capital investment required for low carbon infrastructure. • By providing a fixed price they will help lower the cost of capital. They will protect consumers from high bills by clawing back money from generators if the market price of electricity rises above the strike price. CfDs will apply across the UK but I have ensured that Northern Ireland retains the right to set its own support levels where there is clear evidence that this is necessary. • A small scale FIT will ensure that smaller generators continue to be incentivised following the NIRO's closure in 2017. A feed-in tariff can offer generators greater certainty on investment return than the ROCs. We hope to be in a position to introduce the FIT in 2015/16
Short Background Note: 1. In the longer term in order to improve security of supply low carbon generation needs to compete fairly on cost. Electricity Market Reform is designed therefore to put in place market and institutional arrangements to provide certainly for investors going forward. 2. DETI has secured agreement from Whitehall that the costs of Contracts for Difference will be socialised across all UK consumers as currently happens with the Northern Ireland Renewables Obligation.

TOPIC: COST OF RENEWABLES TO CONSUMERS
Lines to Take: • Move to more renewable energy brings many benefits - investment, exports and jobs. • Most importantly improves our security of supply by reducing our dependence on fossil fuels. • Need to take a long term view on energy prices. Increasing the amount and diversity of renewables in energy mix will insulate against future cost increases of wholesale oil and gas prices.
Short Background Note: 1. Cost of not integrating renewables into the energy mix could be even higher in the long term. Investing in renewables now will mean cheaper energy in the longer term – for the next generation of electricity consumers. 2. While existing costs of offshore renewables are high, work underway across the UK sector to make these technologies more competitive with other forms of low carbon power generation by end of the decade.

TOPIC: RENEWABLE HEAT INCENTIVE
Lines to Take: • The RHI tariffs are designed to compensate investors for the **additional** costs of renewable heat compared to traditional fossil fuel systems. • For each technology, all the various costs involved (including capital, financing, barrier, fuel and operating) together with the provision of a rate of return are considered in order to produce a 'pence per kWh' tariff. • Under the current scheme biomass systems that have a total capacity of over 1MW are not eligible for a tariff. This is because the evidence indicates that these installations would already be cost-effective over the lifetime of the technology. • The heat markets in GB and NI are very different and that is why the tariffs differ. The GB RHI tariffs are based on a natural gas counterfactual whilst the NI scheme is based on an oil counterfactual. • Energy Division is currently developing Phase 2 of the RHI. Policy proposals under this phase will be subject to public consultation which will be an opportunity for alternative evidence to be presented.
Short Background Note: 1. The RHI was launched on 1 November 2012 and provides long term financial support for those installing eligible renewable heating systems. The tariffs were set following an economic appraisal which was carried out by independent energy economists. Tariffs are for 20 years and indexed linked to the retail price index. 2. For biomass installations up to 19kw in size the tariff is 6.2 pence, between 20kw and 99kw the tariff is 5.9 pence and above 100kw up to 999kw the tariff is 1.5 pence. When using the agreed tariff-setting methodology no tariff is arrived at for biomass installations over 1MW. The primary reason for this is the cost differences between oil and wood chip, with wood chip being 50% of the price of oil. 3. During the development of phase 2 of the scheme, there will be an opportunity for industry to provide actual costs for these large installations and consideration may be given to alternative arrangements e.g. different length of tariffs. These issues will be considered in the upcoming work by external consultants and subject to public consultation in spring 2013.