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10 March 2011

Electricity Market Reform Package  
DECC  
4<sup>th</sup> Floor Area E  
3 Whitehall Place  
London  
SW1A 2AW

Dear the Department of Energy and Climate Change,

## **ULSTER FARMERS UNION RESPONSE TO CONSULTATION ON ELECTRICITY MARKET REFORM**

Thank you for the opportunity to comment on the consultation and we will do so on a Northern Ireland perspective.

### **Northern Ireland Perspective**

The Ulster Farmers Union will be responding to the DECC consultation from a Northern Ireland perspective.

The NI electricity market is different to the GB market, with the Single Electricity Market (SEM) being one such example which covers the wholesale market. The SEM provides for a competitive, sustainable and reliable wholesale market in electricity, a joint venture between Eirgrid plc and SONI Limited.

Matters are further complicated with the sale of Northern Ireland Electricity (NIE) to ESB. NIE is responsible for the planning, development, construction and maintenance of the transmission and distribution network, and for the operation of the distribution network. As a part of this sale, ESB has pledged to invest in the upgrade and future of the grid infrastructure here in NI.

It is agreed that investment is much needed in the electricity infrastructure here in Northern Ireland, with the need for long term and sustainable investment in the future. As with GB, there are concerns about security of supply, on account of a growing demand and shrinking supply.

There are 3 power stations in NI, Coal and Oil-Fired Power Station at Kilroot, Natural Gas-Fired Power Stations; Ballylumford and Coolkeeragh. Whilst the UFU does not wish to be drawn into the debate on types of power station, it is agreed that investment is needed in new capacity and this is where the land-based sector enters the relevance of the debate.

The UFU acknowledges that DETI have confirmed that they be carrying out their own research on how the EMR package will impact upon NI and we will be seeking the opportunity to provide our input to this. This is crucial due to the continued absence of a NI-specific Energy Act, and the UFU continue to seek this to be introduced as soon as possible.

The UFU represents 12,500 farm families, with the land based sector covering 75% of NI's total area. Our position is unique as we are both the producers of renewable feedstocks on the one hand and site provision and technical expertise and utilisation of renewable electricity generation on the other.

## **DECC Consultation – Electricity Market Reform – An Overview**

The Consultation acknowledges that Renewables (and Carbon capture/storage) involves significant upfront capital costs and commitments and that such technologies will form a part of a diverse, lower carbon energy mix. The achievements of the ROCs system is recognised in the document and no more so has been demonstrated than here in Northern Ireland. NIROCs provide a significant benefit and they have encouraged the adoption and investment in NI Renewable Energy. Their utilisation in the future will continue and the UFU will lobby for their continued support.

The UFU welcomes DECC's pledge in the consultation to implement a package of reforms which aim to strike a balance between giving the existing players and new entrants with the intention to continue to raise and increase investment.

Four elements of the reform package presented by DECC are Carbon Price Support, Feed-In Tariffs, Capacity Mechanisms and Emissions Performance Standards. Together, these four reforms make good on DECC's own commitments within the coalition's programme for government making the UK a prime location for low carbon energy investment. The UFU will looking for this to be extended to NI. This will ensure that NI energy supply is cleaner and more secure and will lay the foundations for the sustainable economy of the future, bringing jobs up and down the supply chain.

## **Current Market Arrangements**

DECC acknowledge in the consultation the need for investment in flexible generating capacity. The deployment of intermittent renewables and decarbonisation means that this is necessary. The incentives in place are not adequate to overcome future uncertainty created as a result of this intermittency.

**UFU view - This too applies to Northern Ireland and this strengthens our own call for a similar review to be undertaken in Northern Ireland.**

## **Decarbonisation options for reform**

Moves to reduce carbon are driven legislatively by EU ETS and DECC acknowledge that the cap is not enough in its current form to meet the 2050 targets. DECC acknowledge that action is needed to support the carbonisation price, introduce a system of low carbon generation revenue support (Feed-in Tariff) and introduce an EPS (Emissions Performance Standard).

DECC has identified the need for a carbon price support mechanism. A Feed in Tariff (with CFD – Contract for Difference, which is to support the revenues of low carbon generators, whilst at the same time maintaining generation efficiency). DECC identify that Feed-In Tariffs mean greater revenue certainty for low carbon generation and will then make clean energy investment more attractive again.

Through the proposed contract for difference feed in tariff, the Government will guarantee greater revenue certainty for low carbon in the form of a top up payment if the wholesale price is below the feed in tariff, and a potential claw back for consumers if wholesale prices are above the contracted tariff.

An EPS would complement this and prevent the building of high carbon producing power station which to some could be an easy option to fill any efficiency gaps or breaks in supply. This is designed to be a back-stop to limit how much carbon any new coal-fired power stations emit. An emissions performance standard will reinforce the existing requirement that no new coal is built without carbon capture and storage.

**UFU view – The use of a FIT (with CFD) makes sense since it strikes the best balance between decarbonisation (including renewables), security of supply and affordability. However, since we do not have FIT in NI, we need to carry out our own research.**

## **Security of supply and market operation**

DECC are proposing the introduction of a Capacity Mechanism. The aim being to encourage the construction of reserve plants or demand reduction measures to ensure the lights stay on. The transition to low carbon generation means increased risks to the security of supply and the Coalition Government is looking to reward the provision of capacity. In view of this the proposed Capacity mechanism will create an adequate safety cushion of capacity as the amount of intermittent and inflexible low carbon generation increases. Improved signals for investment will mean increased security of supply.

***UFU view - The capacity mechanism will reward demand side responses such as Smart technologies and minimise market distortions and this is welcomed by the UFU.***

## **Analysis of packages**

In the consultation DECC recognise Package 3 as the preferred option.

- Carbon price Support Mechanism (addresses potential market failure)
- Feed-in Tariff with a Contract for Difference (according to DECC the most cost-effective way of supporting low carbon generation investment)
- Emissions Performance Standard ( regulation to prevent Coal-Power Stations)

***UFU view – In light of what is proposed, the UFU would favour Package 3. However, without wishing to sound naive, the UFU wishes to ask if any consideration had been given to extending the RO system?***

## **Implementation issues**

The UFU recognise the need for as smooth a transition as possible, but at the same time remaining on target to meet renewable and decarbonisation targets whilst minimising investor uncertainty.

## **Annex A Renewables : Maintaining investor confidence during the implementation of the Governments new market mechanism**

Projects receiving support under RO will continue to do so after 1 April 2017 in line with grandfathering policy. Existing RO accreditations will receive support for 20 years, also known as "vintaging". However, RO to be closed to new accreditation from 1 April 2017. This will create a closed pool of capacity (which will decrease up until 31 March 2037 in GB).

As far as Grandfathering is concerned, the UFU strongly believes that Anaerobic Digestion, advanced conversion technologies, dedicated biomass using solid biomass or biogas and energy from waste should be grandfathered.

- **Lifespan of NIROCs**

Before answering the questions below, the UFU wishes to point out that in Northern Ireland, the ROC will run until 31 March 2033 rather than 2037. During previous consultations, the UFU have pointed out that NI should be brought into tandem with GB and the NIROC should run until 2037. Consequently, we will be lobbying the NI Executive for this to happen.

### **Question 34 – Do you agree with the Governments assessment of the risks of delays to planned investments while the preferred package is implemented?**

In NI, the Renewables is very volatile and there is a need to nurture and maintain industry confidence and create stable conditions for investment. The identified risks identified in GB apply directly in Northern Ireland.

### **Question 35 – Do you agree with the principles underpinning the transition of the RO into the new arrangements? Are there other strategies which you think could be used to avoid delays to planned investments?**

In October 2010, the UFU presented written and oral evidence to the NI Assembly ETI Committee on Barriers to the development of renewable energy in Northern Ireland. Should these barriers not be addressed, they will delay further planned investments. In highlighting these barriers, we proposed strategies and how this would come about. It should be noted that several of these are specific to NI;

- **Government Support** – Financial incentives are key to establishing a mechanism which will allow NI to meet decarbonisation and renewable targets. We questioned whether reliance upon Government capital grant schemes is the way forward. NI Executive should be nurturing the debate between NIROCs and Feed-In Tariffs, ensuring the least-cost option for the consumer and ample investment support for generators.
- **Government Energy Policy** – a more strategic approach would be achieved by the introduction of an Energy Policy for Northern Ireland. The primary legislation is not in place. This point has been made by the UFU on many occasions.

- **Planning and Consents** – There are an increasing number of installations being denied planning permission. Whilst a blanket-granting of permitted development for renewable projects could never be advocated, the UFU would rather the Planning Service would deliver timely and consistent decisions.
- **Communications (government to the public)** - There is a real need to educate the wider public on the basics of renewable energy.
- **Grid Infrastructure** – Investment is needed in the grid to allow further and continued renewable energy to be brought online.
- **Communications within Government** – for a sustainable Renewable Energy Industry to be developed in Northern Ireland, cross-departmental co-operation is crucial.
- **Grid Connection** – This is a major issue and UFU working with NIE on an on-going basis to make sure all parties involved understand each others specific needs and requirements.
- **Government Economic Policies** – Research and development is not necessarily the answer. The UFU have witnessed much expense in this area without very much implementation. Rather support needs to be directed to existing indigenous opportunities in NI.
- **Banks and Financing** – Financing is one of the key areas for progress to be achieved. Would-be creditors need to be confident in the viability of a renewable system and under the current ROC system, many high street banks are not convinced by this.

**Question 36 – we propose that accreditation under the RO would remain open until 31 March 2017? The governments intention is to introduce the new FIT for low carbon in 2013/2014 (subject to parliamentary time). Which would you prefer?**

The UFU policy has consistently been that NI generators of renewable energy should have the choice and in light of these we would be in favour of all new renewable electricity capacity accredited after the introduction of the low-carbon support mechanism but before 1 April 2017 should have a choice between accredited under the RO or the new scheme?

**Question 37 – Some technologies are not grandfathered under the RO. If the Government chooses not to grandfather some or all of these, should we:**

- **Carry out scheduled banding reviews (either separately or as part of the tariff setting for the new scheme?) How frequently should these be carried out?**

The UFU would favour the carrying out of separate banding reviews. The reason for this is the variable nature of the ROC value and if it is to continue as an incentive it should be under regular review so as to take into account any variables. Banding should continue, however, the review should consider the possible revision of lower banding levels, should uptake of smaller renewable projects begin to wane.

**Question 38 – Which option for calculating the Obligation Post-2017 do you favour?**

The UFU would favour the option of continuing to use the target and the headroom. We believe by retaining this option, there is less chance of the system collapsing. Most importantly, this will mean continuity and this is the purpose of this review, the point to ensure that there is no uncertainty and this is what would occur if this was to be changed on top of introducing a new pricing mechanism.

**Further work**

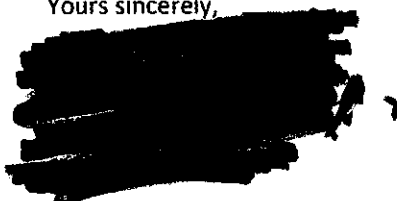
The UFU will speak to DETI and investigate the opportunity to carry out a review into the role of Ofgem and in turn NIAUR and the energy regulatory framework. This has already been actioned in GB through DECC and this has highlighted the importance of the opportunity to rebuild our electricity market, rebuild investor confidence, and rebuild our power stations. As with previous market reforms, this will involve an enormous shift; incorporating the securing of investment in cleaner, greener power.

**Conclusion**

Investment is needed in the NI Electricity Grid, so as to not only achieve carbon savings and targets, security and sustainability of supply. Leading to the delivery of secure, affordable and low electricity here in Northern Ireland. The proposed package is one possible mechanism to achieve this goal and similar consideration should be taken by DETI (in light of primary legislation restrictions already mentioned in this consultation.

If you have any further queries, do not hesitate to contact me.

Yours sincerely,

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