



Northern Ireland  
Assembly

Committee for Enterprise, Trade and  
Investment

# OFFICIAL REPORT (Hansard)

Inquiry into Economic Growth and Job Creation  
in a Reduced Tax Environment: Northern Ireland  
Authority for Utility Regulation and DETI

28 April 2015

# NORTHERN IRELAND ASSEMBLY

## Committee for Enterprise, Trade and Investment

Inquiry into Economic Growth and Job Creation in a Reduced Tax Environment:  
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**Members present for all or part of the proceedings:**

Mr Patsy McGlone (Chairperson)  
Mr Phil Flanagan (Deputy Chairperson)  
Mr Steven Agnew  
Mr Gordon Dunne  
Mr Paul Frew  
Mr William Humphrey  
Mr Fearghal McKinney  
Mr Máirtín Ó Muilleoir

**Witnesses:**

Mr John Mills	Department of Enterprise, Trade and Investment
Ms Jo Aston	Northern Ireland Authority for Utility Regulation
Ms Tanya Hedley	Northern Ireland Authority for Utility Regulation

**The Chairperson (Mr McGlone):** I invite Ms Aston to continue with her opening remarks in public session.

**Ms Jo Aston (Northern Ireland Authority for Utility Regulation):** I will run through the presentation and invite Mr Mills to make any comments at the end. We have worked very closely with DETI and the System Operator to address security of supply, which, we acknowledge, the Committee itself identified as critical in its first review of electricity policy. We are very pleased to brief you today on the issues and how we worked through them to get to where we are today on security of supply and the ongoing issues.

The second slide provides some context on where the responsibilities lie. It shows DETI, the Utility Regulator and the System Operator for Northern Ireland. DETI and the Utility Regulator have a duty to address any security of supply issues, and we therefore worked very closely together on this matter. SONI is really the expert and is responsible for running a safe and reliable system. Part of that is identifying any issues to do with security of supply. How do they fulfil that requirement? By publishing annually a generation capacity statement, which has a 10-year outlook.

In 2013, SONI highlighted the risk to security of supply in Northern Ireland, specifically from 2016, because of the delay in the delivery of the North/South interconnector. Had it been delivered on schedule, we would not be having this conversation today. There were, in addition, other contributing factors, which we will come to, including the Moyle interconnector. In 2016, we get the large combustion plant, which will require the Kilroot power station to go out of commission from that year.

The Moyle interconnector suffered a number of faults and is therefore running at half capacity. All of those, combined with the delay in the North/South interconnector, led to the security of supply issue.

Working with the Department and SONI, we tried to identify the cause, the risks and the possible remedies. We then needed to take action, and action to solve such an issue takes time. We published three papers, the first in June 2013. I think that SONI was briefing the Committee at that stage, prompting the inclusion of that issue in your first review. We published a follow-up paper in December that identified the risks, how likely they were and their impact, particularly on the economy, as well as on consumers from possible blackout and inconvenience, before identifying potential solutions.

The next slide shows the three large generating units, on which we are dependent in Northern Ireland. When we consider security of supply, we must do so in the context of the Northern Ireland system. We have three large generating units, which provide the thermal backup to wind. Whilst we have a lot more wind coming on system, we cannot rely on wind to be there when we need it. We therefore still require the thermal plants to be available to draw on. They, in turn, must close down for safety and for planned maintenance. They are also subject to faults; unplanned failures can occur.

Indeed, in 2012 a combination of planned maintenance and plant failures resulted in a risk to the supply. At that time, we were fortunate because wind turned up and saved the day; but we absolutely cannot rely on that. Very often this happens during a period of high pressure, on the coldest winter's day, or on a still day when there is no wind. We therefore need these plants to be available.

It is important, as well, to say that we are not stuck here. We continue to look at our system, at aggregator units and at demand-side units. In fact, we hope to issue licences very shortly for demand-side units. We are exploring an energy storage pilot and are working to make sure that we get the best value from wind on the system. So, a lot is happening to make our system in Northern Ireland better and more flexible. That is our position on those three large generating units.

I turn over to the graph. The red line shows the very healthy surplus in supply for the Republic of Ireland (ROI) and the blue line the surplus for Northern Ireland. If you look at that blue line a little bit more closely, you can see that, up until 2016, we have a very healthy 600 megawatts of surplus. Come 2016, when the Ballylumford units come out, we are down to 200. I refer you to the previous slide with the three large generating units: if any one of those goes out, 200 megawatts is not sufficient to address that problem. That is the risk that we are talking about addressing here.

The North/South interconnector is fundamental for the long term; not having the additional 400 megawatts will cost consumers in the order of £15 million per annum by 2020. It is causing a constraint on the system, which means that we are not getting the same value and that we do not have access to that surplus of supply in ROI. It will also support renewable generation on to the system and allow us to avail ourselves of all the renewables that will go on to the system for ROI, driving down prices. It is also important for the competitiveness of the current single electricity market (SEM) and of our future I-SEM.

In the short term, given the risk to the economy, to investors' confidence and the risk of blackout for consumers, we thought that it was very important that we took measures. So SONI got the local reserve services contract, and that is now in place. It has not solved the problem, but it has bought us time to 2018.

The Moyle interconnector has been very positive for consumers. It has delivered a lot of value in its life, but, since 2010, it has suffered from four faults. Each fault has been repaired, but it has failed again in other places. It has gone to the next point of weakness and, therefore, in the papers that we published, we identified the fact that there could be an interim repair, that that could work out and that it could take the interconnector from 250 to 500 and address our problem, but we decided that that still did not mitigate the risk sufficiently. At that time, it was identified that the permanent repair would not be in place by 2017-18. The good news is that it looks as if it will be delivered earlier, possibly by the end of 2016, but "possibly" is an important word. It is going into its highest risk phase of construction, and it still needs to get consents cleared through the environment in Scotland and Northern Ireland. So, its delivery is not without risks.

We have the contract in place now. Anyone who knows contracts knows that if you are signed up to one, it can be very costly to do anything about it if you want to stop it; however, I am still very much on the page of, "Why would we?". There is still a very big risk here. All we have done is bought time. We are not out of the woods at all in regard to the mutual energy repair to the Moyle.

Turning to the next page and addressing the risk and honing in on what we have done, which is putting a local reserve contract into place, we mentioned SONI having published its generation adequacy capacity statement. We got it to go back and rigorously examine the issue and the quantum that we would need to procure. We asked it to examine the role of demand-side units and aggregated units to see if that could address the issue, but the scale of the issue and the 200 megawatt gap is such that it could not plug the hole. Therefore, we felt it prudent and important to get the contract, which SONI has done.

Taking in the wider picture, the Northern Ireland Chamber of Commerce has identified that security of supply is absolutely the number one concern for businesses in Northern Ireland. That reinforces the need to rebuild confidence.

We have also identified in the slide the cost of the contract. The additional capacity is estimated to cost about 0.1 pence per kilowatt hour, which translates to about £5.00 per year in the average domestic bill. Nobody wants to have to pay more for their electricity, but this is the best value; it was procured through an open, competitive process. It is a good solution that will alleviate our concern for the next three years.

I will move on to the last slide on the future risks. We have to focus here. We have addressed and plugged the gap for the short term with a contract that we believe is good value for consumers. In the industry, there is a metric that is used for value of lost load. Looking at the value of lost load what that computes through is to say that consumers would be willing to bear a cost of £8 million to £11 million, which is what we are talking about here, to avoid a one-hour outage per year. That is the metric used in the industry, so we believe that it does produce a value for consumers.

The North/South interconnector is really where we have to go. We have to try to make sure that it is delivered as soon as possible for security of supply; to drive down prices for consumers in the current SEM and in the I-SEM; to deliver the EU demand for interconnection, which is important for our new market; and to ensure that Northern Ireland can benefit from the wind generation that we, and ROI, are putting on the system to reduce the wholesale costs of energy, which contribute between 60% and 70% of the bill.

Mr Chair and Committee, that completes my presentation. I am happy to take questions. I think that John may wish to make a few comments.

**Mr John Mills (Department of Enterprise, Trade and Investment):** I will be very brief as I have nothing much to add. DETI remains supportive of the work undertaken by SONI to have AES provide the additional capacity. The Committee has been supportive of the measures in the past in its review of electricity part 1 and subsequently in debate in the Assembly in December 2013. DETI and the Utility Regulator, as Jo has already said, have attempted to keep the Committee and other stakeholders informed of actions, most recently in the update report of 22 December 2014. That is all that I have to add.

**The Chairperson (Mr McGlone):** We will have more to ask, needless to say. Thank you for that.

One wee thing now, I am not a brilliant mathematician or anything like that. However, when I add up your figures for Ballylumford, Coolkeeragh and Kilroot in the slide for the supply concern for 2016 and total demand, total demand, total demand, it shows that they are meeting 99.7% of total demand. Where do wind and renewables fit into that? We are told that they provide up to 20% at the minute.

**Ms Aston:** Yes, they do, but the issue with wind is that it will not always be there, so you have to maintain a level of thermal capacity as a backup; therefore, when the wind is not blowing, you have a backup on the system and you can call the thermals in.

**The Chairperson (Mr McGlone):** I appreciate that. You are saying that they are at capacity at the minute, and that the other 20% is added value.

**Ms Aston:** It is added value. You have this that provides all the capacity. We are encouraging wind on to the system, as, when it comes on to the system, it drives prices down, because wind is cheaper than the other generation. It is in the single electricity market, so it is an all-island market and,

therefore, it pushes down the system marginal price; if wind comes on, it is cheaper and, therefore, you do not have to go to the more expensive plant to discharge generation on to the system.

**The Chairperson (Mr McGlone):** I am just looking at the overall costs. If your aim is 40% from renewables and your project with AES is going ahead for the next five years, if you have 40% fairly soon, or if 40% turns out to be the figure, you are pretty much sitting with a whole lot of added value at quite considerable cost.

**Ms Aston:** I am not quite clear of the point. The target at the moment —

**The Chairperson (Mr McGlone):** The point is that if you need 100% and you have the potential of 140%, what is the cost of that extra 40%?

**Ms Aston:** We want to get wind on to the system. I guess —

**The Chairperson (Mr McGlone):** I am talking about the actual costs. It is just a simple question, and I do not know whether there is a simple answer to it. You will probably say that it is not that simple, because the wind does not blow all the time, but we know that. Is the renewable target of 40% too high, is it too much of a cushion, or is it not enough of a cushion? What is the Utility Regulator's strategic view? I am asking the Utility Regulator first.

**Ms Aston:** The Utility Regulator is not responsible for policy and, where there is policy we facilitate its implementation. Wind on the system does have value — it drives down the system marginal cost. DETI recently published a report on the optimum target for renewables in Northern Ireland, and that is where I was going to defer to the Department, because where the balance rests comes down to economics. DETI recently published its paper indicating that a target of 25% provides optimum value and benefit for consumers.

**The Chairperson (Mr McGlone):** The Utility Regulator does not have a view on that, as an organisation that looks at costings and views on costs to consumers.

**Ms Aston:** We contributed to the Department's research into the cost benefit analysis of the different percentage targets. Through the review and consideration, the Utility Regulator will consider whether we need to look at the economics ourselves, because our decisions on supporting investment into the system are very much based on economics, or what provides value to the —

**The Chairperson (Mr McGlone):** What did your contribution to the review say? If you do not have it with you, you can supply it to us.

**Ms Aston:** We liaised with DETI's consultants throughout and provided them with necessary information. The paper has just been published, and the Utility Regulator will consider the submission. The closing date for responses has not passed.

**The Chairperson (Mr McGlone):** I am not asking for the consultation. You said, if I picked you up correctly, that you made your views known to the Department.

**Ms Aston:** We contributed to the research and provided information to inform the discussion and analysis.

**The Chairperson (Mr McGlone):** Did that research draw conclusions? Can you share it with us?

**Ms Aston:** We provided data and information to inform the discussions, as did many other stakeholders through the workshops that DETI held.

**The Chairperson (Mr McGlone):** I appreciate that. All I am asking is this: can we have sight of it?

**Ms Aston:** Yes, I am very happy to provide it.

**The Chairperson (Mr McGlone):** That is grand. I move over to the Department on that policy question. I ask you for your view on the same question. Has the Department formed a view on the

figure for renewables, Mr Mills? Is 40% too high? Does it need to be reduced, is it not enough, or where are we with it?

**Mr Mills:** As Jo said, we have undertaken research to analyse the costs and benefits of the 40% target. The full document has not been published; Jo is talking about the summary that we published a couple of weeks ago. That was a five-page summary of a 50- or 60-page document. It is out for public consultation along with the strategic issues raised by electricity market reform pursuant to the closure of the current incentivisation of renewables mechanism, the Northern Ireland renewables obligation, in 2017. The summary said that there could be economic benefit to Northern Ireland in up to 40% renewables. However, as Jo correctly said, the most benefit is around 25%.

**The Chairperson (Mr McGlone):** Sorry, I did not quite pick you up there. What did you say about 25%?

**Mr Mills:** The highest value comes in at about 25%; the biggest benefit is at 25%. After that, it slightly tails down, but there is still a positive economic case for up to 40%. However, there is a complication when you add in the effects of electricity market reform and the move from the renewables obligation to contracts for difference. That is a UK-wide scheme, which, to answer very briefly, will not cater for local targets. There is thus no guarantee that development arising from the future mechanism for incentivising renewables that is on the table will take place in Northern Ireland. There is no way of guaranteeing that development will take place in Northern Ireland, and the question of whether there can be a target at all becomes moot. That is out for consultation at the moment; I believe that it closes on 13 May. It will probably be sent to the Committee.

**The Chairperson (Mr McGlone):** I want to get back to the 25%, because I am unclear on it myself. I may be just having a slow morning. How have you come to the conclusion that it is perceived to be of the optimum benefit?

**Mr Mills:** The researchers — Ricardo, that we contracted with — have done a lot of research and have designed scenarios, taking into account the information provided by stakeholders. Put very crudely, those scenarios take an optimistic, a medium, and a low assessment of various factors, such as the deployment of renewables, the increase in demand and so on. They have taken all those factors and assessed whether there would be an economic benefit in going for, say, 20%, 25%, 30%, 35% or 40%. What they find is that the biggest benefit against cost occurs around 25%.

**The Chairperson (Mr McGlone):** OK; that is grand. Thanks for that. To move on to the inquiry, the Programme for Government made the economy the Executive's top priority in 2011. Again, it is a question for you, Mr Mills. What contribution has energy division made to that commitment in ensuring that the economy is top of its priorities during the period of the Programme for Government?

**Mr Mills:** What contribution have we made to the economy?

**The Chairperson (Mr McGlone):** Well, no, the contribution by energy division in prioritising the economy. It is essentially what this inquiry is about.

**Mr Mills:** The approach to energy policy is based on balancing the trilemma: costs, security of supply and the environment. That balance is reflected in the strategic energy framework, which is currently under its mid-term review. That is from 2010-2020, and 2015 is its mid-term review point. It has 40-odd commitments, and we report regularly to the Committee on taking supporting measures to ensure security of supply, which is essential for the economy, and on decarbonising, which is all the renewable side.

If you compare 2010 to 2015 you can see that there is now a renewables industry employing a large number of people and getting investment of about £150 million to pay for that. On the cost side, the aim is to do it at least cost to the consumer. On that point, there is growth in competition, for example, compared to 2010. There is more switching than in 2010. As for costs, happily, we have seen a period of stability, followed recently by falls in costs of about 8% or 9% in regulated tariffs for the vast majority of users. Happily, we have seen a fall in world gas and oil prices that will have resulted in savings for people using transport and home heating.

**The Chairperson (Mr McGlone):** Those are, if you like, external factors that can go up and down, but I am contextualising it for you. This inquiry is about the factors that are required to gel together to

ensure that, basically, if a reduction in corporation tax comes, it will work. A couple of things have come up during our inquiry. One is cost, which you touched on; I know that other members will deal with that later. However, a theme that has come up consistently is the adequacy or otherwise — in fact, the inadequacy — of the infrastructure and the grid. You mentioned renewables. That is but one aspect, but it is kind of outwith what we are talking about. It is the grid that will be required for economic development and growth. Some parts of the North are already disadvantaged as a result of how poor the grid is. If we are to develop enterprise zones and businesses and take advantage of potentially reduced corporation tax, some parts of the North will be left seriously disadvantaged because of where we are at the moment.

We are trying to establish the way that the Department has looked at that situation, because it is an issue that has cropped up time and time again in the evidence that we have heard. We are also trying to establish what the Department feels needs to be done about it, particularly if the priority is to have an economy within the terms of the Programme for Government, especially in a reduced taxation climate. We are trying to get to that and to hear how your division has been working with others on it.

**Mr Mills:** That is a wide-ranging question for a security of supply debate. I guess I would have to start by saying that we can disassociate some of these things. It is all about the trilemma and balancing that. You say, "Well, let's leave renewables out of the picture". That is fair enough, but where the grid is concerned, I do not think it is appreciated just how very successful the renewables industry and NIE have been. Despite what everybody says about the policy on renewables, the unofficial figures from March 2014 to March 2015 suggest that we have hit the 20% target from nothing a decade and a half ago. If we take just solar, the number of installations have increased 800% over the last couple of years. That puts pressure on the grid across the board, because it has to adapt to it. So, we have seen this major change for the environment, which has a knock-on effect.

On the linkage question, we can look at infrastructure. In general policy terms, however, if you want to invest in the grid, you have to pay for it, so that will have an impact on costs. If somebody wants to pay for a connection to an enterprise zone, that is good. I guess we would cite the expansion of the gas network to the west as a major contributor to the expansion of the energy infrastructure. However, you have to be careful. Maybe this is more something that the regulator is very close to, but it is like putting motorways to the most remote parts. Is that really a good investment? For example, you cannot have 275 kV lines all over Northern Ireland, and, indeed, people would not like the pylons if you did.

**The Chairperson (Mr McGlone):** Many of us represent some of those areas where very successful businesses want to go for expansion. You heard of Dale Farm, which cannot have a £40 million expansion because of the inadequacy of the grid. It would argue that it has been successful in spite of what has been thrown at it.

Other members are going to pursue a number of issues with you.

**Mr Dunne:** Thanks very much. We appreciate you having to stand in today for Jenny, who, we understand, is unable to be with us. So, we appreciate you coming along and doing what you can.

Picking up on what Patsy said, we have had evidence sessions with various organisations concerned about how NIE carries out its business. Are you satisfied that the current allocation of funding to NIE is adequate for it to get on with the business of upgrading the grid and helping businesses, especially small businesses, to get connections?

**Ms Aston:** I will give an initial answer and maybe defer it to Tanya, who was very heavily involved in the price control process. We go through a price control process with NIE as part of the regulatory process. We look to make sure that any funding that we allow a company is justified, will be executed and provides value for consumers. We did that in our determination on NIE. NIE was discontented with it, and it was referred to the Competition Commission. The Competition Commission supported our funding and thought that we were perhaps generous in some areas. NIE has been funded to £400 million for capital investment, which is a lot of money. In its current run rate, it is underspending.

**Mr Dunne:** It is underspending?

**Ms Aston:** It is underspending on its capital at the moment. Therefore, when thinking about funding adequacy for NIE, it is important that the price control and the economics work for the consumer. That is where we are at.

I will hand over to Tanya to make a few comments that will give more of the detail on how it is moving forward with facilitating the new rules and regulations.

**Ms Tanya Hedley (Northern Ireland Authority for Utility Regulation):** This goes back to the key point about how the grid is paid for. You are developing a grid to ensure that it is adequate both for now and the future. That has to be paid for, and it can be paid for by the person connecting to the grid or by consumers who are using the electricity. In the past, the Committee has also been concerned about the costs of electricity in Northern Ireland. It is very important that, when we look at the need that NIE has identified for grid development and how much it costs, that is justified. For the current price control, the Utility Regulator assessed what NIE was planning to do, identified what it believed was necessary and put forward its position for RP5. NIE did not accept that. It went to the Competition Commission, which also assessed that information about what NIE needed to do. The figures are not exactly the same, but they are not too dissimilar. It is clear that NIE has a clear need to increase investment from the past price control, RP4, and additional moneys were allowed for the current price control for NIE to invest in the network.

I am aware that NIE has been in front of the Committee and has indicated that it intends to deliver all the outputs that were identified as part of its RP5 submission to the Competition Commission and that the Competition Commission believed are needed. That has been assessed twice, and our position is that NIE has funding to develop the identified need. New need may appear, and it is entirely within NIE's powers, if there is new need that was not covered, for it to come back to us and for us to provide additional moneys if that can be justified. Our duties to protect consumers are not just for cost today but for the longer term. In response to your question, I believe that, based on the information that I have, it has adequate funding, but that does not mean that the world will not change and that additional funding should not be made available if additional need appears.

**Mr Dunne:** Since our last meeting with the Utility Regulator, which was some time ago, a number of us expressed our concerns, quite strongly, about the lack of action that we felt there was from NIE. That came through from various groups and organisations that have been before us, who told us about the frustrations that they have felt about connections. What has the Utility Regulator done to use its influence to try to move things forward and to encourage and help customers to get connected on to the grid for renewables? What has the Utility Regulator done to move that process forward?

**Ms Hedley:** We have been working very closely with DETI and NIE on progress on this connections issue, and the Minister called a summit, which we also attended, to discuss the issue. We have been making good progress, and NIE is now indicating that it will make a written proposal to us this week. We are hoping to be in a position to provide positive information to the Minister later in May.

It is always the case that some developments will be uneconomic, and NIE has a duty to develop the network only in an economic manner. So, although this may be positive news for some, there is a likelihood that a significant number of people who are currently seeking connection will prove to be uneconomic and cannot be accommodated. Hopefully, this step forward will provide some good news for some generators out there who are seeking to connect.

**Mr Dunne:** OK. We will be monitoring progress.

**Mr Humphrey:** Thank you very much for your presentation. We have heard much in recent times about the devolution of corporation tax to the Northern Ireland Government. Looking forward to that, if it happens in the near future, will the Utility Regulator, in the next price control period, look at the potential for growth in the economy that might flow from the devolution of corporation tax and take that into consideration when setting prices?

**Ms Aston:** This is all projection and scenarios, and I think that that is really important. That sort of strategic approach of looking at what it will bring, what the possibilities are and what might come in are terribly important to feed into a price control. They are also terribly important to feed in to a strategic energy framework document on the policy side and to look at what might happen. We need the mechanism whereby we can react swiftly, should that happen. We also need to be cautious not to create a lot of stranded assets and to fund things that may or may not happen. So, it is very much a judgement call.

Tanya referred to the fact that, should NIE or somebody else identify an additional need that has not been covered in a price control, there is always the opportunity to come back to speak with the

regulator. It is not something that we would want to encourage on a very small scale, but where corporation tax is concerned, we follow policy and we very much want to encourage the economy. Where it makes sense for consumers, at the end of the day, we will facilitate that, but to sound a note of caution, we need to be careful about stranded assets because if they do not work out, consumers must continue to pay for them in the long run without getting the value.

**Mr Humphrey:** At the start of your answer, you said that this is all projection and scenarios. You will appreciate that those are exactly the judgements and scenarios that the politicians have to look at in the context of corporation tax being devolved, the boost to the economy that it will provide, the opportunity costs that it will have and the effect that it will have on the Northern Ireland economy. Is your organisation doing the same thing?

**Ms Aston:** Absolutely. We are talking about energy today. Energy costs and prices and security of supply are fundamental. We talk about the trilemma of cost and the single electricity market that provides 70% of the cost. You will be aware that we are redesigning that to create a much more competitive market. I think that the North/South interconnector is fundamental for infrastructure and in helping it. All those trilemmas are fundamental for driving down costs, which consumers are paying more for at the moment, for facilitating better competition into the single electricity market and for facilitating renewables so that we maximise the benefit that we get when from them we remove the constraint in the system and so that we can avail ourselves in the North of the 40% target that will remain in ROI for renewables. That will prevent us having to possibly get more Northern Ireland-specific energy that we will all pay a high price for. We very much want to facilitate and encourage. We look at the efficiency of all our companies and at their long-term strategic planning, and we are very focused on them being good for today's and tomorrow's consumers, which helps the economy.

**Mr Humphrey:** In short, do you believe that the introduction of corporation tax will help Northern Ireland to get to the point that you are talking about and will deliver the best deal for consumers?

**Ms Aston:** I could not possibly speak to that strategic question on behalf of the Utility Regulator. We are not a policy body; we facilitate policy. We are very much for the economy and for value for consumers today and tomorrow, and we will facilitate it —

**Mr Humphrey:** With respect, it is on the basis of the economy that I ask the question; it is not political.

**Ms Aston:** No, absolutely, but whether we introduce corporation tax is still a policy question. If corporation tax is introduced in Northern Ireland, hopefully it will bring a lot of investment in. That will be very good and will ripple back to us by making sure that we facilitate that, as well as the development and very much the infrastructure, which is fundamental in getting interested parties in.

**The Chairperson (Mr McGlone):** Just picking up on that, has the Utility Regulator not considered what the situation might be with the uptake of business, new business and FDI? I would be surprised if you have not. Have the Department or, indeed, Invest NI approached you for your opinion on what the scenarios and needs might be and how we might or should respond to them?

**Ms Aston:** I know that Jenny is very engaged with the various Departments and is discussing all those very significant and important issues with Invest NI and the Department. She also regularly meets people in industry and the CBI. So, yes, absolutely.

**The Chairperson (Mr McGlone):** Specifically on the question of a reduction in corporation tax, has there been formal consultation and liaison and an official exchange of views between the Utility Regulator's office and key stakeholders and the Department and Invest NI?

**Ms Aston:** There have been discussions, Chair. If you want more detail on them, I suggest that Jenny speaks to you about them.

**The Chairperson (Mr McGlone):** All right; or you could provide us with a written briefing. That would be for the purposes of Hansard.

**Ms Aston:** OK.

**Mr Flanagan:** Thanks, Patsy, and thanks for the presentation. What will be the total cost of the upgrade to meet the security of supply problem that we hear so much about? The Minister has told us that it will mean a fiver a year on domestic customers' bills, and you are telling us that it will be a tenth of a penny per kW hour. What is the total cost?

**Ms Aston:** One computes to the other.

**Mr Flanagan:** What is the total cost?

**Ms Aston:** I think that £8.9 million per annum is the expected additional cost from that contract.

**Mr Flanagan:** For three years?

**Ms Aston:** Yes.

**Mr Flanagan:** With the option of a further two years?

**Ms Aston:** With the option of a further two years, yes.

**Mr Flanagan:** Every time that we ask about the supply issue, we are given a different answer, so it is useful that two of the three parties are on the front row and another is right behind you. When we ask the regulator, it says that DETI asked for it on the advice of SONI; when we ask DETI, it says that it was the regulator and SONI; and SONI says that it was asked to tender for it on behalf of DETI and the regulator. Who is ultimately responsible for the additional cost of around £27 million over three years?

**Ms Aston:** DETI and the Utility Regulator have a joint responsibility for security of supply, so they will have liaised to develop the papers that have been published. The first paper, which is from June 2013, very much described the situation and the contributory factors and identified some of the options for addressing it. With the first paper, we had rather hoped that we could just go to the Department of the Environment and say, "Can you just have a further derogation for Ballylumford, please?" However, that was not to be the case, because it had already had a derogation, and we could not go down that route.

All three parties started to have discussions about how we could move forward, and we looked at the different roles, responsibilities and strengths of each of the different parties. From the Utility Regulator's point of view, SONI, the System Operator, regularly procures ancillary services to make sure that the system is kept safe and reliable. They are the experts and the ones that identified the risk in the first instance. The Utility Regulator regulates SONI, so we engaged in discussions with it in a little bit more detail while very much keeping in touch and liaising with the Department. We started to identify what the options were, what the problem was and what we could do. Our second paper identified some of the options and how we could take them forward. We also engaged with Mutual Energy to see what was happening, what the situation was, what we could do and what the timings were. Basically, we engaged with everybody that we could and felt it necessary to engage with, and we constantly and transparently published papers on where we were.

As part of its provision of ancillary services and its requirement and duty to maintain a safe and secure supply, through public procurement, SONI went out to identify the solutions that were out there. That is how we have ended up with the contract.

**Mr Flanagan:** Did somebody ask SONI to do it, or did it do it off its own bat?

**Ms Aston:** That is SONI's statutory duty, and we would have been in agreement with it about going out and procuring that issue. We would have agreed that it was a problem; we would have agreed that it was a risk; and we would have all agreed that we needed to do something about it. All the parties would have been in that position. We would have asked SONI about that being a route and one of the most viable options for going out in an open process to ask people, "Who can address this problem?" Yes, it absolutely seemed the most pragmatic and sensible way to go forward.

**Mr Flanagan:** So, is the regulator's view that SONI unilaterally took that decision?

**Ms Aston:** All three parties saw that as the right answer to address the risk. In fact, it was possibly the only answer to address the risk within the time frame that we were dealing with.

**Mr Flanagan:** Can you clarify what would have happened if the three of you had not agreed to go down that road? In the event of selecting the "do nothing option", what would have been the other actions that other parties would have taken? Would AES have just sat back and let its plant be switched off, or would it have invested money to keep it on line itself?

**Ms Aston:** I would love to have a crystal ball. I do not know what the answer to that is.

**Mr Flanagan:** Did you ask it?

**Ms Aston:** Do you ask somebody that question? What answer do you think you might get? It went through an open procurement process —

**Mr Flanagan:** If I am giving them £9 million a year, I would ask them.

**Ms Aston:** Sorry?

**Mr Flanagan:** I would ask them before I gave them £9 million a year.

**Ms Aston:** Our understanding was that the plant would close. That was the directive's requirement.

**Mr Flanagan:** Did you clarify that with AES? Did you clarify with it whether it would close the plant or invest its own money?

**Ms Aston:** AES informed SONI. As part of its 10-year outlook, SONI must go to all the generators every year to inform their projections for security of supply. In producing the security of supply, it would have gone to AES to find out what its plans were, and AES would have informed SONI that it was planning to close.

**Mr Flanagan:** So you had a guarantee from AES that it was not going to keep its plant operational in the event of —

**Ms Aston:** If I am correct, it has to give sufficient notice to SONI that it is going to close, because you cannot have something of that scale and that you are so dependent on just come off-grid. Therefore, it would have informed SONI that its intention was to close.

**Mr Flanagan:** What is the sufficient notice that it has to give?

**Ms Aston:** I am not sure. Tanya, are you aware of that?

**Ms Hedley:** Every year, as part of the generation adequacy statement, all the generators are asked what their plans are for the next 10 years. Those are not fixed, and they are not necessarily held to them, but that is their commercial decision at that point in time. AES had given SONI notice of when it thought the plant would close, and that was reflected in the annual generation adequacy statement. It can do that any time it likes within that 10-year process, because it is asked what its view is for the next 10 years.

**Mr Flanagan:** Can AES close down its plant overnight, or does it have to give so many years' notice to SONI that it is going to close?

**Ms Aston:** We can come back and clarify that, but my understanding is that it has to give a period of notice, because you cannot just shut down a plant of that sort of scale with that level of dependency. I can come back to you on that if you wish.

**Mr Flanagan:** The point is that, if there was a requirement on AES to remain operational for x number of years and that was longer than the period for which you are committing to give them money, surely there was a contractual obligation on it to invest the money to keep its plant operational to meet the basic terms of its contract. You can clarify that for me.

Where the state aid risk is concerned, have you any legal assurances that what you are doing is state aid compliant?

**Ms Aston:** At the time, we liaised with a lot of other organisations. We liaised with the UK authorities. The approach that we have taken is very similar to that that the national grid and Ofgem took. We do not understand that there are any issues on state aid.

John, would you like to comment on that?

**Mr Mills:** State aid was not considered to be an issue, given market failure to supply the capacity. The additional capacity is required only in exceptional circumstances. There is a three-year limited time limit, and there was a competitive process. We are aware that other people may not like it, but there was an open process for people to compete.

**Mr Flanagan:** There was an open process, but it is my understanding that there was only one bidder. Is that right?

**Ms Aston:** There were three submissions for pre-qualification, but the only viable one was AES.

**Mr Flanagan:** Was there a third-party view of the value? Did you do any assessment of the proper value, or were you happy to accept what the sole bidder put in?

**Ms Aston:** No. This is a contract between SONI and AES, and it would have sought best value for money. I refer again to value for the consumer — the value of lost load — that is used as a metric in the electricity industry in the UK and elsewhere. The additional £8.9 million to £11 million that, we estimate, this will cost really equates to consumers being willing to pay that not to be without electricity for one hour in the whole year. That metric is used in the industry.

**Mr Flanagan:** If there was only one bidder, and you do not appear to have done any assessment of the bid, how can you be sure that it represents value for money and that there will not be state aid implications as a result?

**Ms Aston:** I think that it provides value for money. I have just spoken about the value of lost load that is used as the metric for value and consumers' willingness to pay for it. On state aid, this is a services contract that SONI necessarily had to go out and procure to make sure that it fulfilled its statutory obligation in ensuring that the system was safe and provided a reliable supply for consumers. Our interest and our whole focus are consumers and the economy.

We have a short-term fix for a critical issue for all of us around the table and, indeed, for Northern Ireland. It is about making sure that we have a secure supply of electricity. We have done this as a short-term patch, but it is still a problem. We need to focus on making sure that the North/South interconnector happens, and we are very focused on that. We get regular updates from the System Operator. Our current timeline indicates that the Northern Ireland consents will be cleared by Q4 2016. Energisation may not happen until Q4 2019, so will we need this contract beyond the three years that we have contracted to? What is the situation if we do not get this up and running by 2021, when Kilroot is in danger of going out? We still have a real problem with security of supply. We need to focus on making sure that we get the right answer now and in the long term. This also feeds through to efficiency and the costs that consumers have to pay. It feeds through to the efficiency of the wholesale market. I really want to focus on trying to get that basic infrastructure of the North/South interconnector up and running.

**Mr Flanagan:** You said that it is a short-term patch, but it is a very costly short-term patch.

My final question is about Mutual Energy. As a mutualised company that is fully funded from electricity bills, it is supposed to be run in the interests of customers. However, in its annual report last year, it revealed that its two executive directors earned £257,000 and £208,000 in 2013-14, which was more than a 25% increase on the previous year. How can the Utility Regulator justify those earnings of senior executives in Mutual Energy in any circumstances but particularly given the fact that the interconnector has been out of operation or operating at half capacity for so long?

**Ms Aston:** The remuneration of the executives of Mutual Energy is an issue for the remuneration committee and the approval of its board. Its board is made up of members who have been appointed through public advertisement. That is the governance process. I refer you to the Moyle interconnector, our papers and the public exchange of letters between Mutual Energy and us. The value of the Moyle interconnector, since it has been up and running, has been about £40 million a year. As we look forward to getting this up and running again, SONI, in its published reports, projects that it will cost about £16 million a year. I am not speaking to the rights or wrongs of what seem to be very healthy remuneration packages — I would love one myself — but that is the governance process. From a Utility Regulator point of view, we look at the value of the interconnector for consumers. It delivered a lot of value for some 10 years. We have to pay for repairs now, but they are projected to pay for themselves over three years and deliver another value of £16 million a year. That is what we are focused on in making our decisions, and there is a governance process in the remuneration quantum for the directors, which I —

**Mr Flanagan:** I think that they are excessive and well beyond what the chief executive of your organisation earns in a year. I do not think that there is any justification for them. I see a striking difference between the approach that the regulator has taken towards NIE and how it spends its money and the laissez-faire approach that you are taking with Mutual Energy and how it spends customers' money to pay excessive salaries to executives. Has the regulator no input into how Mutual Energy spends its money and pays its senior executives?

**Ms Aston:** It is a different governance set-up. NIE is a regulated company that is subject to price controls and so on. We set its budget, funding and everything else. Mutual Energy is a mutual company set up in the interests of consumers. It is not regulated. Its costs are passed through to consumers, and we have sight of that annually, but Mutual Energy is run on a different governance structure.

**Mr Flanagan:** So you do not regulate the price that Mutual Energy charges or what it does with the money it gets?

**Ms Aston:** I must go back to what I said earlier. We are aware and have studies and evidence that show that the existence of the Moyle interconnector, which Mutual Energy is focused on —

**Mr Flanagan:** Have you raised the big issue of salaries with Mutual Energy?

**Ms Aston:** It is not our role. We do not ask about NIE salaries either. We do not look at that detail. We set the requirements for investment of the companies that we regulate. We do not look at specific salaries for specific individuals in those companies. That is very much up to the company.

**Mr Flanagan:** I have heard complaints from people in NIE that the regulator stipulates the type of transformer that it uses. That is on a completely different scale to the salary levels that senior executives earn. I kindly suggest that you start to look at what some of these people are earning. There is no justification for these salaries. They are completely excessive and send out the wrong message to the customers who fund such salaries.

**The Chairperson (Mr McGlone):** For clarification: if that is your role and duty, can you do that with a mutual organisation?

**Ms Aston:** It is not our role and duty.

**Mr Flanagan:** It should be.

**Ms Aston:** It is the governance structure. There is a bigger picture. I cannot express an opinion about these salaries; they do seem to be very healthy salaries. As you say, they are much higher than our chief executive's and much higher than we get. However, we are focused on value for consumers. When we look at the Moyle interconnector, which is what that organisation is developed to provide, we find that it has delivered a lot of value to consumers. As for the company's profits and repairs to the interconnector, it will use some of its profits and return them to consumers. What they make is all turned back to consumers. Their salaries are high, but, if they deliver and run the company really well, that value goes back to the consumer. We are focused on giving value back to the consumer.

**Mr Flanagan:** Operating at half capacity or not operating at all is not exactly going that well, but they are still earning massive salaries, which are being taken out of the money that should be returned to consumers. There is a problem that needs to be looked at, and I do not accept that nobody can involve themselves in it.

**The Chairperson (Mr McGlone):** Do you know who can involve themselves in this other than the board?

**Ms Aston:** We did a review of Mutual Energy some time ago and made a series of recommendations, which, I believe, have been carried out. You can tell that I am not speaking to the detail, because I was not involved in the review, but we can come back to you on that. I go back to what I said: it is the governance structure. This is a mutual company that was set up by members appointed by public advertisement to look after the interests of consumers. That board approves the remuneration policies that its committee within the organisation brings forward. The board appointed through advertisement makes those decisions.

**Mr Frew:** Thank you very much for your presentation and your answers so far. Agendas were mentioned, and there is certainly a very complicated mix of players in the energy world. It seems to be the case that, no matter what takes place and what decisions are made, every decision costs money, which impacts the people whom we represent: our constituents and their employers. If constituents lose their employers and their jobs, they cannot pay their electricity bills. That is my agenda. The decision to purchase 250 MW of additional generation capacity from January next year will cost one large employer in my constituency an additional £65,000 a year to its already unsustainable and burdensome energy bill. That is completely unsustainable and could amount to job losses all around Northern Ireland.

We all know about the problem with security of supply. We have to check that and monitor it, but, when a decision is made, we have to make sure that it is the right decision and is value for money. I am listening to what you say, and what I am trying to get at is whether there is another way, because, the figures in the latest generation capacity statement from SONI for 2015-2024 indicate a significant level of excess generation even when you exclude weather-related technologies, wind and other renewable energies, which cannot be relied on. What criteria were used to determine additional capacity and the amount that is needed?

**Ms Aston:** SONI are the experts. SONI follows standard methodology for the industry when it calculates the adequacy of a system's capacity. When the issue came up, we said to SONI, "Do we really need it? Please go away and consider it, given that 510 MW is coming off the grid with the closure of Ballylumford. What is the issue? Can you quantify it? What is the risk? How much do we need? If 510 MW is coming off, do 510 MW not need to go back on?" SONI looked at scenarios and issues and told us that the figure was 250 MW. We also asked it to look at the demand side to see whether it could do something there.

This is not the space that we want to be in. None of us around the table wants consumers to pay anything more than they have to. We tested all that, sent SONI back and got reports. I am sorry but I am not brave enough, the Utility Regulator is not brave enough, the Department is not brave enough and the Minister is not brave enough to say that we will risk a blackout when experts are telling us that that capacity is needed, even after we pushed SONI to test it again, and the experts came back with the same answer. There is not much more that I can say, but it is regrettable. People have honed in and totally focused on this issue, but not having the North/South interconnector is costing £15 million a year. Meanwhile, we have a problem, and we still need to find a solution. We need to put the same amount of energy, effort and focus into making sure that we get through that door, because consumers are carrying and will continue to carry that cost.

**Mr Frew:** We all agree that the North/South interconnector is vital. We want it and need it now. I am 100% on that page with you. Industries, businesses and employers are waiting for the interconnector, but there are matters that they cannot grasp at present. What they do know is that, from January next year, they will be slapped with a massive additional bill and cost burden.

You rightly say that SONI are the experts. However, its latest statement indicates that the adequacy standard for Northern Ireland is set at 4.9 hours loss of load expectation (LOLE) and further states that the 2016 base is calculated at one hour, which, if my sums are right, equates to about 200 MW. Given that this is a very low loss of load against the stated adequacy standards, what justification was there for requiring the extra 250 MW over and above the 200 MW surplus that is already in place? We can

see that clearly in the line diagram in SONI's statement. Expert reports and detailed graphs make it hard to justify the spend.

**Ms Aston:** I take you back to a slide in my presentation, which shows the three big lumpy generators that we depend on and the possibility of one going out. That happened in 2012, when wind saved the day.

**Mr Frew:** Everyone played that down in 2012. Now you are playing it up, because you are trying to justify a decision.

**Ms Aston:** We believe that we have made the right decision. In 2012, we were lucky. It depends what value you place on the economy and on the confidence of the economy. We heard from the Chamber of Commerce that its biggest priority is security of electricity supply for industry. We talk about corporation tax and wanting industry to come to Northern Ireland. Do we want there to be any question at all about security of supply? Prior to putting this solution on the table, everyone was very anxious that there was going to be a problem, and they wanted something to be done about it. The Utility Regulator, the Department and the Minister have made this call, and that is where we are now. We would totally prefer not to have to pay extra. The Authority for Utility Regulation is constantly looking at where we can get better value for consumers. Very shortly, we will publish a consultation on the capacity payment mechanism, which will, hopefully, deliver value for consumers in the current SEM. Our raison d'être is to produce cost efficiency and value for consumers. We have made a judgement call on the importance of the issue and the risk.

**Mr Frew:** You talked about your three big suppliers and generators: Ballylumford, Coolkeeragh and Kilroot. We realise the problem with Ballylumford coming off in 2015 or 2016 and the additional capacity of 250 MW. It is not as simple as saying that there are three blocks, because they have different stations. They have varying levels of generation: some have 245 MW, others have 58 MW, 29 MW or 42 MW. I am trying to measure the risk. In the 2012 crisis, how much of Ballylumford was going out at that point?

**Ms Aston:** I am sorry, but I cannot speak to that at all. I do not have that level of detail; I was not in the energy sector at that stage.

**Mr Frew:** I am trying to find out whether it was one part of the station or all the station, because that puts a completely different slant on it.

**Ms Aston:** I come back to the fact that we employ experts to look at this, who use the standard methodology that is deployed throughout the energy and electricity context, in the same way that we have standards of service in the water industry with which we have to comply. This is about risk. It is a judgement call. It comes back to second-guessing the experts. Paul, I hear what you say. You can do that analysis, and we would have tested SONI at the time. That is why we sent SONI back to the drawing board to determine the risks. However, I am not brave enough to say that I can undermine its expertise.

**Mr Frew:** You sometimes have to go with gut instincts and try to measure risk. There are tools to do that. There are generation adequacy criteria, which do not seem to have been applied in this decision-making process. I know that SONI are the experts, but has the Utility Regulator and, for that matter, the Department scrutinised all that to make sure that it was the only thing that we could do and at the lowest cost?

**Ms Aston:** Yes.

**Mr Frew:** We have demand side units (DSUs) and portable generators. Could none of those solutions have been used to facilitate or manage the risk?

**Ms Aston:** SONI was asked that specific question about the demand side. It already takes expected growth into consideration in its annual capacity statement, but, nevertheless, before we went out to tender, we specifically asked it to look at the issues and aggregated generating units (AGUs) and to ask, "What is the potential solution, and can this gap not be plugged?" Its riposte was no — not for the scale of the scenario that we were trying to address. We covered that ground. It is an important point, and we have a duty to facilitate that. I hope that, over the next number of weeks, we will have some licences for the demand side in Northern Ireland. That is important, and we want to be there.

**Mr Frew:** I will put the question this way: how much would the demand side have produced or saved in megawatts?

**Ms Aston:** It goes back to what I said: it is incorporated into the generation adequacy statement, because it has to plan scenarios for 10 years. It has to put in what the growth in the industries will be and what they will contribute. The scenario — it is similar to the 2012 situation — is that one of the plants will go out, so what will we do? Will we be able to solve that problem?

**Mr Frew:** As far as I know, the existing North/South interconnector runs about 200 MW. It is also my understanding that that could be temporarily increased to 400 MW. Remember that all the pressure with peak demand is in the winter. It is not as if it is all year round, but businesses will be slapped with a bill all year round. At certain times during the year, we have a problem with demand, but we may have had a temporary solution with the existing North/South interconnector. Was that explored by you or the Department?

**Ms Aston:** Again, SONI would have tested that in its projections and its operation of the system. I believe that SONI has attended the Committee before and talked about those specific lines. That was not an answer. There are lots of constraints on our small system that we are looking to address and trying to see what we can do. It is a complex system, which is why SONI is there, constantly looking at how it can deploy things. That was not a solution.

**Mr Frew:** At all.

**Ms Aston:** No.

**Mr Frew:** This is a long-term problem to 2024 when we will lose parts of Kilroot. What long-term thinking is being deployed? This is a short-term solution for three to five years. It is being paid for, and we have additional capacity, arguably at a time when we do not need it. In fact, we could need it in three years, five years or in 2024. We are hoping for the North/South interconnector. The Moyle interconnector will be go online sooner rather than later. Would it not have been in the best interests of all of us, the consumers and my constituents to have had a contract for a shorter time rather than being held up, as you rightly said, and stuck in a three-year contract?

**Ms Aston:** There are two points to your question: the longer-term answer and whether it would have been better to have had a shorter-term contract. I do not think so. Mutual Energy will deliver earlier than expected, which is good. However, we do not know whether it will have problems going through a construction phase in a difficult environment. We cannot be 100% sure until we have got it, so a three-year period seems about right. Based on our information at that time, a three-year period will hopefully get us beyond the North/South interconnector delivery, so I think that it was the right period. We built in an extra two years because of the risk of the North/South interconnector, and I am pleased that we did that. If we want to avail ourselves of that, we will need to let AES know quite early, because it will have to do further work to extend the plant to be able to survive an additional period. So AES has plugged the system to be able to exist for another period and to comply.

Over the long term, we are constantly looking for updates on progress of the North/South interconnector from the System Operator and from EirGrid because the line in Northern Ireland is no good without the line in the South. So let us be very positive about that. However, I ask the Committee to do what it can to profile the importance of getting that major infrastructure up and running for security of supply and for efficiency in driving down costs.

In the redevelopment of I-SEM, we want to redesign the capacity remuneration mechanism. In looking at that, it will be different from our current system. We will identify the volume we need and where we need it and will then procure that through an auction system. If we have a risk of security of supply in Northern Ireland that is specific, particularly without the North/South interconnector, that will be expensive, because this is supply and demand. That high cost would encourage investment in, but you will pay for it. Again, that comes back to cost. We are looking at how the long term works. I would like to be sitting here very assuredly and telling you that the North/South interconnector will be delivered because it is the right answer.

**Mr Frew:** NIE was here last week, and I quizzed it on paragraph 10.318 of the Competition Commission's report, which states very clearly that the onus and the risk should be on NIE to invest in

the 33kV grid. What is your view on that? Has it stepped up to the mark investing in 33kV grids so that some employers in my constituency can generate their own electricity and connect to the grid?

**Ms Aston:** Thankfully, I am not aware of the RP5 to that level of detail, but I will defer to Tanya.

**Ms Hedley:** NIE indicated to you that it is wrapping up its programme. That is not a surprise because, during the RP5 process, it did not have clarity of what investment it would be allowed, and it takes time to procure and put contracts in place. We will monitor that area very closely. We will be looking for detailed reporting to make sure that it is doing the defined outputs and that the identified work is being delivered. We have no reason not to believe that it will do that investment for the next number of years.

As I mentioned, we engaged with NIE and the Department on some connection issues, and we hope to be able to say something positive on the economic duties on NIE. It is up to NIE to invest economically in the network and to decide what the best investment is. We scrutinise it, but our duty is to protect consumers. Its duty is to develop the network economically.

**Mr Agnew:** Thank you very much for your answers so far. There have been quite a lot of questions, but you can appreciate that we are very interested in this area. It is also a complex area. I will preface my questions by saying that, if I ask anything ignorant, it is because the longer I serve on this Committee, the more confused I am about energy. I will try to ask sensible questions, but I apologise if I veer off.

As part of our inquiry into energy policy, we looked at grid investment, and one of our recommendations was that there should be a strategic approach to grid investment. We were told by the Department that there is a strategic approach, but, as far as I understand it, the strategic approach is demand-led. When we said that there should be a strategic approach, we meant anticipating demand. I know that there are concerns — I am trying to remember the term that you used, Jo — about having assets sitting dormant —

**Ms Aston:** Stranded assets.

**Mr Agnew:** Yes, stranded assets. I know that there is a concern about that, but I will give you a concrete example of where I do not think there has been strategic investment. In 2011, the Crown Estate issued its call to license tidal projects for the north coast. It was fairly predictable that someone was going to take up that offer. In fact, there were numerous bids for that opportunity. However, four or five years on, those projects are trying to get up and running, and they are having problems with the grid. To my mind, those problems could have been anticipated and we could have had strategic investment in the grid to make sure that those problems did not occur. Why, in your view, did that not happen?

**Ms Aston:** I will defer to the network person here.

**Ms Hedley:** OK. The first thing to say is that there is a strategic approach. It is demand led, but there is an assessment of what that demand is going to be in the future. NIE does not wait for the demand to occur: it monitors where the demand is in Northern Ireland every year, as does SONI. One thing that we are developing with NIE as part of its reporting is something called load indices, which show how the capacity on the network is developing. You can see that progress so you can then see where the critical points are appearing. You can also predict where they will be in the future, so there is some strategic thought to it. Hopefully, that gives you some comfort.

Because of the work that went on in the Crown Estate piece, it was very clear where those projects would be developed. It was clear what size they would be and what sorts of investments would be required. The size of those projects and their long-term plans show that they are very significant. These are large levels of investment, so it is a case of trying to understand when the need will materialise, when the network needs to be there and how that will be paid for.

A number of years ago, NIE came to the Utility Regulator with what it called its medium-term plan, which was for investment in the transmission infrastructure in order to facilitate renewable development. Most of that has been approved and is progressing. NIE also came to us with its approach on clustering, which was a way to allow more renewables to connect and to try to ensure that we did not end up with a landscape of multiple overhead lines. However, we are more strategically considering how to develop the network. Again, that is progressing and is facilitating a lot

of the larger scale renewables that are connecting. This work is ongoing and consideration is being given, but we also want to ensure that we do not jump too far ahead of those projects as they develop, so that we end up with a stranded asset, as Jo mentioned. There is a balancing act in how those projects progress and when the investment takes place. The Utility Regulator and NIE both engage proactively with those developers on their timescales and when they hope to be at the stage of connecting.

**Mr Agnew:** If we are being strategic, why are we not at least a bit ahead of the game? Why do we have a situation where, as I understand it, one of the developers on the north coast that wants to carry out a 10 MW pilot is having connection problems? Why is that not being anticipated? When you do your price control and when you give consent to invest £400 million, what prevents NIE from acting before the developer is ready to connect, rather than having to wait until it sits down with the developer to say, "Right, you are ready to connect; here are all the problems."?

**Ms Hedley:** I do not want to go into too much detail on the project that you refer to, but we are actively discussing it with the Department and NIE. They are quite a way off from being able to connect because of various bits and pieces that they have to do, but we are actively talking to them to see what can be done. There is also a duty not to discriminate; we cannot decide that one type of renewable energy is better than another and should be treated differently. We need to be very careful that we stay within the legal duties that the Government has put on us in promoting renewables.

**Mr Agnew:** There are very few renewable generators proposing to bring on 100 MW. That is fairly significant when it comes to being strategic and working towards the 40% target.

**Ms Hedley:** Yes. We are aware of the project that you are talking about, and we are actively engaging with the Department and NIE about it, but I again point you to the works that we have done to try to ensure that the grid is ready in areas where we can see real value, and, hopefully, move forward towards meeting targets that the Government has set.

**Mr Agnew:** My concern is that we are almost creating stranded assets or that we will put at risk the development of those projects on the north coast because of the connection problems. I have been contacted and I think that, at this stage, we are back in a position where developers feel that the problems are being resolved. I had some phone conversations that, from their point of view, were pretty urgent. I do not want to say that the project was completely put at risk, but there were genuine fears about the progress. Maybe it is my ignorance, but I still do not fully understand why — Sorry, when was your price determination?

**Ms Hedley:** The Competition Commission put a determination in place about a year ago, but, at that stage, we were already partly through the time frame that the price determination was for.

**Mr Agnew:** So that delay could potentially have impacted on this. I suppose that is what I am trying to get at. Is it because a year was not sufficient to have these things in place? I see a demand-side approach. The developer has not said, "We need to connect", so NIE has not upgraded the grid. Can NIE not upgrade the grid in anticipation of what the developer will do?

**Ms Hedley:** NIE does that through the clustering system. That is the process that it has put in place for renewables. It monitors what developments are in planning and what developments are coming forward. It does not wait until the developer puts in the application form; it is proactive in looking at the grid's future needs, but there is also a balancing act in not necessarily jumping too far in advance so that you end up with consumers paying for infrastructure that may never be used.

**Mr Agnew:** In some of the cost-benefit analyses, the price controls, etc, there seems to have been an approach that says that microgeneration, particularly solar cells on houses, is just not worth it. When those calculations are being made, it seems to me that solar is just seen as a problem in that it does not produce enough to justify the investment in the grid to bring those micro-renewables online. How long term do we look? We always talk about 2020 but there is, I hope, life beyond that, and I hope that there is thinking beyond 2020. If we are talking about decarbonising our electricity supply, surely solar and photovoltaic on domestic housing has to be part of the mix. If we kill off the industry now through failure to invest in the grid, can we bring it back?

**Ms Hedley:** Solar fits into micro, small-scale generation. To put it in context, in Northern Ireland, there are now over 10,000 active renewable generators operating. For solar, the run rate at the minute is

over 300 applications a month. In March, I think that there were over 700. There was a huge surge in people applying because of changes to the incentive scheme, and that is putting quite a lot of stress on the organisations that are dealing with those. In one month, you get 300 applications and, the next month, you get 700 applications when you were not necessarily expecting that level of jump. There is a lot of solar out there, and people are using it for their own use as well as for export. We are all aware from various pieces of evidence that we, NIE and other developers have produced that there are pressures on the grid in terms of NIE as a heat map to indicate where the stresses and strains are. I agree with you: it is not a short-term target. We talk about 2020, but the European directives and thoughts are around decarbonising energy by 2050. This is not about "Let's tick a box"; this is about climate change.

One thing about economic value is that people actually need to use the electricity. Somebody needs to want to use it. There is no point in having a lot of renewable generation if people cannot use it because it makes the network insecure. People want the stability of security of supply and quality in the supply that they get. The other thing is that, at certain times — we have mentioned this before at the Committee — wind generation is turned off in the SEM and in the wholesale market because the demand is just not there; there is no huge, heavy industry using huge amounts of energy. At certain times, such as a summer night, we do not have a large load because everyone is using air conditioning; our heavier load is during the winter. Our duty is to protect consumers: the people who are using electricity and paying the bills. Yes, we want to promote renewables and ensure that we consider security of supply, but our primary duty is to consider whether the person who uses the electricity wants and needs it. Will they use it? There is a journey, but there is a balance between the costs now, sustainability in the future, and security of supply. That goes back to the trilemma that you are pointing to.

**Mr Agnew:** OK. Thank you very much for the answers. I want to move on to the Department and Contract for Difference. Has the Department's approach now become, "Ah well, if it happens, it happens; it is out of our hands."? The Department's attitude to Contract for Difference seems to be that it cannot do anything about this new scheme. What is the Department doing to ensure that Northern Ireland sees at least its fair share of renewable development as part of the Contract for Difference scheme?

**Mr Mills:** I have absolutely no idea where that accusation comes from. Absolutely the contrary is the case.

**Mr Agnew:** The whole argument that has been made —

**Mr Mills:** Sorry —

**Mr Agnew:** Sorry, I will let you answer. An argument has been made since the review of the strategic energy framework. We have not seen the detail of the report yet, but we have just heard that 25% is now being deemed to be the optimum. However, what seemed to be coming from the Minister was that Contract for Difference is out of our hands; it is a UK-wide pool and if people do not want to develop in Northern Ireland, they will not develop in Northern Ireland. That is the interpretation.

**Mr Mills:** Well, I do not know whose interpretation that is, but it could not be further from the truth. The Minister, the permanent secretary and everybody down to the people in energy division who deal with this directly have had massive contact with the Department of Energy and Climate Change (DECC) in London to discuss these things. The Minister has been over personally to see the Secretary of State to highlight some of the specific issues that we have; for instance, around clustering and the need for longer grace periods. We deal constantly with the industry and have had numerous discussions. Tomorrow, I will give a talk on the subject again. The engagement has been very determined. But, at the end of the day, that does not mean that we will be successful.

The DECC approach to electricity or the move to Contract for Difference is that it must be on a UK basis, thus there is no acknowledgement that we need a longer grace period. It is a fundamental principle of electricity market reform with DECC that there cannot be any suggestion that we could guarantee regional development. According to DECC, there is no possibility of looking at costs. As a result, because continuance of the incentivisation of renewables — it goes back to the trilemma — will have a marked effect on costs, the Minister has consulted on the strategic impact of introducing Contract for Difference alongside the DECC consultation on the detail of how it will work in Northern Ireland. Both of those consultations are out and will close in mid-May.

**Mr Agnew:** The tables have now turned to some extent. Under the renewables obligation certificate system, for any development in Northern Ireland the costs were spread across the UK, so, to a large extent, GB consumers paid for development in Northern Ireland. Under Contract for Difference, there is the potential that the vast majority of the development will be in GB, and our consumers will pay for it, with no direct benefit.

**Mr Mills:** That is absolutely correct.

**Mr Agnew:** It is?

**Mr Mills:** That is correct.

**Mr Agnew:** Yes; I thought that I had got it wrong. Were we wrong to go into Contract for Difference and the new system of electricity market reform without negotiating those grace periods that you referred to?

**Mr Mills:** While we tried to negotiate those grace periods, it was a one-sided negotiation.

**Mr Agnew:** I have one final question, Chair. It is on our inquiry; I nearly forgot to raise it.

**The Chairperson (Mr McGlone):** That is why we are here. Try not to forget that one.

**Mr Agnew:** Exactly, Chair. I want to go back to the Utility Regulator and regulation costs. The Federation of Small Businesses and others asked us to look at the policy options to bring down energy costs for business. Regulation costs are an element of the overall electricity picture. What is your assessment of the benefit to consumers of the regulatory cost? Is the cost-benefit analysis working out in consumers' favour?

**Ms Aston:** I would say absolutely, yes, but I would say that. When I was in water regulation, by the time we did a price control we were saving around £50 million a year in operational costs. If you look at the recent RP5 — I do not have the numbers but I am sure that Tanya can provide them — NIE was looking for hundreds of millions more than we determined it could have. That was referred to the Competition Commission and it came back in our favour. We had got our numbers right, not the company.

If I look even to the wholesale energy market, I referred to a consultation going out next week on capacity payment mechanisms. The evidence is there that we are doing our job. It is terribly important that we are proportionate in the regulation that we apply. We very much try to honour that. If a company is doing well, let us not scrutinise it to death. Where there are monopoly services, however, benchmarking and regulation are fundamentally important. Looking at our retail side, we retained the price control regulation of the incumbent. That is delivering benefits for consumers. In every sector that we look at, the evidence is there, not just what we speak to, Steven.

**Mr Agnew:** Going beyond your regulatory role, there is the stream that funds the Northern Ireland Centre for Economic Policy etc, and the additional costs added into the price for various programmes. Are you content with those across the board? The focus is often on domestic consumers, but are business consumers getting a good return on those additional costs in the price structure?

**Ms Aston:** John might want to comment on some of those additional costs. They are subsidies that we administer in order to incentivise. In our whole regulatory role, we very much protect the domestic consumer, but we protect all consumers. On the retail side, in comparison of prices we look at the small and medium-sized businesses as well as the large consumers. On the single electricity market and our redesign of the I-SEM, I met the major energy users' group on a couple of occasions, and will continue to meet it. Our focus is not solely on domestic customers.

**Mr McKinney:** It strikes me that there are two scenarios in security of supply. There is the gap, and creeping increasing demand etc. How do we know that you are informing yourself about the potential that would emerge out of lower corporation tax and increasing demand for electricity supply when we do not see that in your presentation?

**Ms Aston:** I spoke to the Chair about that earlier. That policy decision has been made. It takes everybody around the table to inform each other of what value we see coming into the sector and what that means further down.

**Mr McKinney:** Where is that taking place?

**Ms Aston:** Our chief executive is liaising at a high level in relation to that with —

**Mr McKinney:** We, as a Committee, are not seeing that. I do not see that here.

**Ms Aston:** We will take that away. I have agreed to take that away and come back to you on that.

**The Chairperson (Mr McGlone):** Earlier, you agreed that you would supply us with some of that detail.

**Ms Aston:** Jenny will be advancing a lot of that discussion. The strategic energy framework is being reviewed. That will be another important document in looking at scenarios.

**Mr McKinney:** I will ask it in a different way: would the lack of a robust assessment of that turn off potential investors?

**Ms Aston:** The lack of a robust assessment of corporation tax?

**Mr McKinney:** And its potential.

**Ms Aston:** It goes back to our strategic outlook, and it comes back to demand. We consider what are the different scenarios in everything that we do. We take a high, medium and low scenario in demand. It might not be specific to corporation tax. In making our strategic decisions on the scenarios for the generation adequacy, or even in developing our I-SEM and SEM, we will look at scenarios. What will happen to wind? What will be the development of that? What about demand? Will it increase? Will it decrease? We always run with a number of scenarios — high, medium and low — in all those contexts. It might not be directly related to corporation tax, but it is an envelope within which we look at the possibilities on the high side and the low side. We can extract from some of that for you. I am very happy to take that consideration away and feed back to you.

**Mr McKinney:** I get that, but you presented a couple of slides. The Chair raised corporation tax earlier, and I respect the assurances that you have given us on further information about discussions, but we are in the reality now when we will be inviting people in with FDI and all the rest. Earlier, in respect of North/South supply, you said that we could be looking at the fourth quarter of 2019, but then you added on two years. There is a real threat to the growth potential that we have; it is a greater threat than what you have presented today. It is not here.

**Ms Aston:** I hear the Committee say, quite loudly, that if investment comes knocking on our door, we absolutely want to be ready to accommodate it in respect of corporation tax and any implications from it. I ask the Committee to let us come back, because we did not come here today with that thinking to present to you, but we are very, very happy to come back with that thinking.

**Mr McKinney:** Do you accept that this presentation falls shy of that?

**Ms Aston:** No. If we think about any major inward investment, it will take time to come in. We will have the network to agree —

**Mr McKinney:** With respect, I appreciate the conversation we have had, but the presentation you have given us is against creeping increasing demand, not radical demand. How do we know that you are thinking in those terms at all?

**Ms Aston:** I come back to scenarios. It is all back to —

**Mr McKinney:** Have you done scenarios?

**Ms Aston:** Yes, scenarios will have been done within the generation adequacy statement.

**Mr McKinney:** Within the ambition of the corporation tax scenario?

**Ms Aston:** No, I am not able to present to you today within the conditions of the corporation tax scenario.

**Mr McKinney:** Is the Department doing that?

**Mr Mills:** No. It has only produced an annual assessment of demand.

**Mr McKinney:** That is the creeping demand.

**Mr Mills:** No, it is all demand. It will be all scenarios. Your point, which I think Jo is answering, is that you want to be assured that more business demand will be included in the ongoing and normal process part of the system. That is what you want assurance on, and that is what Jo said she would give you.

**Mr McKinney:** Yes, but at a strategic high level and at a subregional level, given that, potentially —

**Mr Mills:** All demand will be included in the assessment of what is needed.

**The Chairperson (Mr McGlone):** Sorry. "Will be" or "has been"?

**Ms Aston:** Has been.

**Mr Mills:** There is an ongoing annual process. It is SONI's job to make sure that there is an adequate system.

**The Chairperson (Mr McGlone):** I hear what Fearghal is saying. This evidence session was about energy issues and updating the inquiry into economic growth and job creation in a reduced tax environment, which is corporation tax. It would be very helpful to establish, certainly from the Utility Regulator and from a departmental point of view, what consultations you have had on the potential that exists within that environment.

Unfortunately, Jenny cannot be with us today, but could we have a written briefing that outlines the potential scenarios that you see? Those scenarios will be best informed by some of the other stakeholders such as Invest NI and those within the Department. That briefing should be on the scenarios that you see unfolding and how, strategically, demand in those scenarios will be met. Fearghal has shared his thoughts with us, and I am sure that I am encapsulating the mood when I say that I would be very surprised if those scenarios had not been gone through. We need to have gone through them. If we have not, we are in a slightly more difficult place.

**Mr McKinney:** With respect, Chair, you are making the assumption that they have been gone through.

**The Chairperson (Mr McGlone):** No, I am not making any assumption. I am asking for evidence that, in fact, they have been gone through. I would be very surprised if they had not.

**Ms Aston:** Fearghal, what I would say is that, in all that we do, we are strategic and long term and are not just for today's consumer but tomorrow's. So, when it comes to adequacy of supply, there is a 10-year outlook and, in that, there are high- medium- and low-demand scenarios. You then take your pick. In the same way, we have made the decision and taken the call that putting in a local reserve was necessary; we have taken that call for today. We take the call all the time as to whether there is a high, medium or low demand. As things like a lower rate of corporation tax come in and perhaps support a more high-demand scenario, we will need to make decisions. Perhaps when those decisions are called for, we will need to take it around and back again so that everybody is aware of the cost implications of those decisions in —

**Mr McKinney:** I get what the content of the discussion would be, but I want to ask a very blunt question. Have all the stakeholders sat down against the backdrop of potential demand emerging

from a lower rate of corporation tax and worked out what that demand will be and the actions that will need to be taken as a result?

**Ms Aston:** On the targeted question you are asking, I would say that we have not sat down and had discussions on that with a specific corporation tax label, but we have done that in a high positive demand scenario. I have undertaken to come back to the Committee with a submission that will provide a more targeted answer to your question in the context of corporation tax.

**Mr McKinney:** I have one final question, Chair. NIE has made a proposal about power parks. It has spoken about a window of opportunity for those — *[Interruption.]*

**The Chairperson (Mr McGlone):** Is that a vote?

**Mr Frew:** We have three minutes.

**Mr McKinney:** This is unfortunate.

**Ms Aston:** "Unfortunate", did you say? *[Laughter.]*

**The Chairperson (Mr McGlone):** I think that we will have to — Is that a vote?

**Mr Frew:** Could we have that answer in writing, and we can let the folks go?

**Mr McKinney:** What was that?

**Mr Frew:** Could we have the answer to that question in writing?

**The Chairperson (Mr McGlone):** That is a fair point. Fearghal, could you ask the question again? Have you completed the question?

**Mr McKinney:** We will do that in written form, if that is OK.

**The Chairperson (Mr McGlone):** Have you heard the question, Jo?

**Ms Aston:** No.

**Mr McKinney:** Basically, NIE is talking about the opportunity to have a good conversation about the prospect of power parks. That would, of course, address that subregional aspect that I have talked about. What are your shared or individual views on that concept?

**The Chairperson (Mr McGlone):** If it is OK, Fearghal, we will submit that question in writing as well so that you can pick it up.

**Ms Aston:** Yes, that is absolutely fine.

**The Chairperson (Mr McGlone):** I am sorry about this, but we have to go for a vote. Thank you very much for your time and for sharing your views with us.