



Northern Ireland
Assembly

Committee for the Economy

OFFICIAL REPORT (Hansard)

Small-Scale Green Energy Bill:
Department for the Economy

8 December 2021

Electricity is delivered by a combination of generation, transmission, distribution and supply. The Bill focuses on generation alone. It affords value to generation but says nothing about consumption. It is silent on the other aspects of the delivery chain. As the Committee is aware, the Department hopes to publish, very soon, a new energy strategy, which aims to achieve the net zero carbon emissions from the energy sector by 2050 whilst maintaining affordability and security of supply. In that context, all the low-carbon solutions — microgeneration, small- and large-scale renewables, energy efficiency and smart technologies — should be considered, but in the round. The strategy will be supported by a schedule of policy development that will inevitably lead to the identification of policy levers to give effect to the policies and deliver the strategic goals.

The Committee has already heard, as it considered the strategy development earlier with my colleagues Richard Rodgers and Thomas Byrne, that we anticipate potentially significant proposals for energy legislation during the next mandate and beyond. Whilst it is premature to speculate on the detailed contents of a forthcoming strategy, the process has been grounded in evidence. That includes the Northern Ireland energy transition model, a programme of research between the Department and leading experts in the field. Departmental officials have worked with interested parties. I know that you have taken evidence from the regulator, the system operator, the network operator, and consumers and their representatives, to identify areas for development and future challenge. The strategy and, more especially, its subsequent action plan, will set out how the Department sees those issues being addressed as we move towards net zero.

It is clear that a growth in renewables will be an important component of what is needed. The strategy is founded on the principles of decarbonisation, digitalisation, decentralisation and democratisation. Whilst the Bill can purport to support those principles, particularly decarbonisation and the promotion of green energy, it does not explain how it would mesh with the other necessary requirements to deliver affordability and security of supply. There is no policy direction to define the extent to which a scheme that is designed under this legislation would promote generation for supply rather than for consumption — the so-called prosumer approach — nor how to balance between those ends as they would be achieved. Specifically, there is no attribution of costs between generation, connection, distribution and supply. Consumers without subsidised generation could bear the costs of microgenerators without enjoying any of the benefits. Increased levels of intermittency would, almost inevitably, increase the reliance on balancing markets, which can be the most expensive component of the final wholesale price. The urge to increase multiple micro-connections may also add to the cost, and risk reliance on the thermal plant that would be required to maintain baseloads. In short: significantly more micro-connection could increase costs and risk security of supply.

In Northern Ireland, Power NI already provides a microgeneration export tariff that is annually approved by the Utility Regulator and that any active consumer can avail themselves of. Therefore, microgenerators have a choice and a route to market. Recent Ulster University research indicates that, in Northern Ireland, it is the more affluent consumer who can participate in microgeneration, whilst low-income and vulnerable consumers face barriers. Under the proposals in the Bill, there is a risk that we would see low-income households pay more on their electricity bills to enable higher-income consumers to save on theirs.

Support for the Bill would be counter to the evidence-based approaches. It could leave the Department legally bound to develop a scheme that would reduce price competitiveness, require more expensive generation and give lower levels of reliability. The Department would, rightly, be open to criticism, and it would risk a repeat of mistakes of the past. The inclusion of what I am calling an "escape hatch clause", I suggest, betrays the proposer's fear that any scheme is likely to quickly display unwelcome outcomes. In any case, it is superfluous, given the Department's commitments to both recent public inquiries and the Public Accounts Committee's recommendations requiring such options to be included in future scheme design.

Legislation must have an evidence base. However, the impacts of the Bill on costs to the consumer and on the power system remain unknowns. The Bill writes a blank cheque for decarbonisation without regard to who pays and how much they pay for reliability and economy. Any scheme that is developed under the proposed legislation could increase costs; reduce reliability and, therefore, security of supply; and, ultimately, increase emissions through reliance on a higher level of baseload thermal generation.

Given those fundamental concerns, I advise the Committee that the Bill, if it is passed, would legislate on an idea that is not proven and lead to a risk of damaging effects on the consumer and the power system in Northern Ireland. The Bill threatens to impose a duty on the Department to create a scheme

that is based on a policy that is not tested, to generate outcomes that are unknown, and to compel instability on an aspect of the critical infrastructure that is necessarily judged on its dependability.

I am happy to take any questions, although, from the outset, I have to say that neither Koichi nor I is an engineer or economist.

The Deputy Chairperson (Mr O'Toole): OK. Thank you, Joe. That was a fairly definitive departmental — [*Laughter.*] You did not hedge your bets; that is a fair statement.

One of the statements that you made, Joe, was that significantly more microgeneration could increase costs and — I think that you said this — potentially affect supply. That seems as though you are quite down on the principle of not just increased microgeneration as provided for in the Bill but microgeneration in general. Is that wrong?

Mr Reynolds: That is wrong. I am sorry if I gave that impression. Microgeneration is, in itself, valuable, and that is one of the laudable objectives in what is being proposed. When I look at the text of the Bill, I see a reference on the opening page to:

"the establishment of a scheme to promote the micro-generation".

I am not keen on "the establishment of a scheme". Promoting microgeneration is a good thing, but we need to go through a process whereby we identify the objectives that we are trying to achieve; put in place a policy; and then identify which policy levers, be they legislative, financial or otherwise, we seek to put in place to bring about an increase in microgeneration.

The Deputy Chairperson (Mr O'Toole): OK. One of the points made by the Department and, more obviously, by the sector, ie companies like Power NI, is that, if microgeneration is a policy aim, they would rather that that was part of a broad-based energy strategy. However, the truth is that we do not think that — I am not asking you to give too much away; well, you can if you want — the energy strategy will mandate a new legislative incentive for microgeneration or, indeed, a legislative basis for expanded renewables generation generally. It will be a strategy, not a legislative package.

Mr Reynolds: It is a strategy that will then require a package of different policy initiatives. Those policies will have to be brought forward, consulted upon and developed, with, not least, the Committee and with stakeholders and consumers generally to see how we approach that.

It is clear that, if we are to achieve the net zero targets, we will need a significant increase in the amount of renewables in the system. What I wanted to say in my opening comments is that some part of that will be by microgeneration. We do not need a legislative command to bring forward greater microgeneration. There is already a route to market. There are already tariffs in place. I know that you have heard from Power NI, NIE Networks and others who have made those points. It is difficult to see the benefit of the legislation and what it would add to the system that is already in place. We need increased renewables, and, in order to achieve that, we need to go through a policy process to identify the balance between small-scale, large-scale and microgeneration.

The Deputy Chairperson (Mr O'Toole): An academic who was before us, although he broadly welcomes the principles of the Bill, shares some of your concern about the potential distributional effects and the fact that more well-off people who are able to install microgeneration might effectively benefit, in a sense, at the expense of lower-income households. We are at Committee Stage now. Would the Bill be more palatable if there were, by amendment, measures not so much to broaden the scope to allow all lower-income households to install microgenerators but to slightly mitigate the distributional effect? Would you be more supportive of the Bill if there were amendments in that regard, or is it just the principles of the Bill that you do not think —?

Mr Reynolds: The difficulty is that the Bill legislates to bring forward a scheme. Some of your questions are about what the content of the scheme would be. I am suggesting that, if we do not know what the content would be, we probably ought not to legislate to make it a requirement that we have one. That is the process that would follow if the Bill were to become law. Those are good questions, but they need to be answered before you decide that the way to answer them and put those answers into effect is through some legislative measure.

The Deputy Chairperson (Mr O'Toole): I have a final question before I bring colleagues in. Is there not an argument for putting the principle of creating a new microgeneration scheme in law and then, possibly through amendment, ensuring that there is enough time for the scheme to commence to give the Department time to publish an energy strategy and design a scheme that is consistent with it and deals with the issues? Is that not a plausible alternative?

Mr Reynolds: It is still not clear what objective you are trying to achieve. Are we trying to achieve an increase in just microgeneration, percentage-wise, for its own sake? Microgeneration is already there: it is not a significant part, but it accounts for 2.5% of generation capacity in Northern Ireland if we do not count the zero export and nearly 4% if we do. The Bill suggests hitting 5%, and Mr O'Dowd has spoken before about that. We are pretty close to that: the options are there, and there is nothing to prevent people from installing microgeneration facilities.

You referred to research from Ulster University. Funny, I looked at that again at the beginning of the week, and it suggests that it is more affluent people, perhaps MLAs and civil servants, who can afford to install these things. I am not sure why we need to incentivise them, because they can already do it. If we did that through some sort of publicly funded scheme then, certainly following past practice, it is likely that the cost would be distributed amongst all bill payers. So, disproportionately, lower-income families would be making a contribution through their electricity bills to pay for people like you and I to put solar panels on our roofs. That does not seem to be a sensible approach.

Mr Nesbitt: First, I declare ownership of a wind turbine; I am a microgenerator, I suppose. When you talk about the mistakes of the past, does that include encouraging people like me to become microgenerators?

Mr Reynolds: No. There was a place for that. The scheme that was established was very successful. The desire in that was not to increase microgeneration; it was to increase renewables. The contribution that you, and others in a similar position, have made has increased the proportion of the total generation that comes from renewables from a small single-figure percentage to the current position. Whilst the most recent figures published show some fall away in the percentage, almost 50% of generation now comes from renewables. Microgeneration contributes towards that, which is a good thing.

Mr Nesbitt: When I generate electricity, it either goes back into the grid or it is used for my domestic situation. When it is the latter, does that not take a lot of pressure off the grid, which is, therefore, is a good thing? You talked about getting up to 5%, but if we were getting up to 40% or 50% surely it would have a really positive impact on the need to invest in the grid.

Mr Reynolds: There would be a number of difficulties with that. First, there would be a difficulty from the sheer cost of consumers effectively providing their own electricity. If we had 40% or 50% of microgeneration at a consumer level, it would be an enormous and almost inconceivable increase from the current rates within any foreseeable time period. If that were to happen, it would also bring forward some of the issues that I mentioned in my opening remarks on system reliability. When you have that number of microgenerators contributing to the system, you need to make sure that you have reliability built into the system. With that number of people contributing, with either wind or solar contributions, there is an impact on system stability. The thermal plant is necessary to back that up so that when the wind does not blow or the sun does not shine, you still have power available to you. So, there would be a greater likelihood of the thermal plant having to be switched on and off, which would increase emissions and costs.

Mr Nesbitt: Going back 10 or 15 years, 40% from renewables was considered to be incredibly ambitious. Today, we are talking about the target being 70%, 80% or however much the grid can tolerate.

Mr Reynolds: In no way am I suggesting that we should not aim for those targets or, indeed, aim to surpass them if we can as we move to 2050. The Government in London have expressed their view that 100% of electricity generation should come from renewable sources by 2035. In my opening remarks, I said that we need to understand through our policy how we balance that between large- and small-scale generation and microgeneration to achieve those targets.

Mr Nesbitt: Understood. Am I right in saying that there is only so much that the grid can tolerate and that that would not include 100%?

Mr Reynolds: There would be engineering challenges to achieve that. However, as you quite rightly pointed out, previous targets seemed overly ambitious at the time. I was not working in energy at the time, but when the strategic energy framework was published in 2010 and set the 40% target for 2020, I suspect that some thought that even half of that would be unachievable. However, that target has been achieved. The target of 70% of generation from renewables by 2030 that the Minister has mentioned seems just as ambitious, but I am confident that we can achieve it.

Mr Nesbitt: Is the Achilles heel of the proposed legislation the cost of connecting the microgenerators to the grid?

Mr Reynolds: There would be a substantial cost, which would have to be met somehow. My concern is that the attribution of the cost across all the bill payers would be the unfairness in the system.

Mr Nesbitt: More generally, when do you expect the strategy to be published?

Mr Reynolds: The Minister has made it clear — he said it again during this week's Question Time — that he expects it to be published in the coming weeks and hopefully before the end of the year.

Mr Nesbitt: I hate to think that it would slip out during Christmas week, but you cannot comment on that.

Finally, have you replaced Richard Rodgers, or are you working with him?

Mr Reynolds: I do not know whether Richard Rodgers is replaceable, Mike. *[Laughter.]* Thomas Byrne, who was the director of energy strategy, has transferred to the Department of Finance, and I have taken up some of those responsibilities.

Mr Nesbitt: OK. Thanks, Joe. Good luck with it.

The Deputy Chairperson (Mr O'Toole): I am tempted to add that if we get the energy strategy very late, there should be a lump of coal from Santa for the Department for the Economy, but that would not be consistent with decarbonising energy.

Mr Dickson: Thank you, Joe, and welcome to your new role. From listening to your opening remarks, essentially you are saying that we need to leave the Bill to one side until the Department comes forward with its energy strategy and then look at where issues, such as those raised in the Bill, fit into the strategy. That might be an interesting concept if there was not so much scepticism about the Department and its ability to deliver any strategy, let alone an energy one.

In regard to the detail of what we are talking about today, you touched on the potential cost to poorer consumers through their future electricity bills, and I take the point on that that was raised with us by the University of Ulster academic. However, there are ways of working around that, such as the development of cooperatives and social enterprises. That could be done on a street, community or community interest basis anywhere across Northern Ireland; people could simply become shareholders or part of a company. Those companies, particularly social enterprises and cooperatives, are highly skilled in attracting the appropriate finance without having to touch public funds. That is a way of delivering equally for everybody.

You will probably say that you are not going to tell us, but are innovative things like that being considered in the energy strategy? In the absence of understanding what is going into the energy strategy, why would the Committee wish to stop a Bill that has the potential to deliver those things?

Mr Reynolds: First, thank you for your welcome. The strategy is imminent — hopefully, very imminent — and will set out a programme of work around which we will have to develop a range of policies for how we deliver against the renewables target. The renewables target is already in the public domain: it was first mentioned by Minister Dodds over a year ago, but successive Ministers have suggested that we will aim for a 70% renewables target by 2030. Given that, we will have to develop a whole policy portfolio to see how to bring that forward across the range of providers. You are quite right to make reference to the fact that we will have an opportunity to include community energy providers when we do that.

As we develop policy, and once the strategy has been published, we will look at what the action plan says about the prioritisation of different areas in the strategy. As we start the development and see where those policy areas are, we need to look in the round at where we source those renewables and whether they are increasingly of a prosumer nature — as I mentioned in my remarks — whereby communities develop energy for their own use rather than exporting it back to the grid and seeking income from that. The confusion around which of those objectives is trying to be met by what is described in the Bill is a source of concern. Microgeneration and community energy projects are good things, and we ought to support them. I am not sure that putting a legislative burden on the Department is necessarily the best way to achieve those things or that it leaves us with the flexibility to respond to initiatives that come from the community or other microgenerators.

Mr Dickson: I understand what you are saying about what are, perhaps, some of the Bill's shortcomings, but experience shows that if we do not put legislative pressure on the Department very little is done.

Mr Reynolds: I will not comment on the second half of that, but I am quite happy that you should set legislative targets; I am just not sure that the target in the Bill necessarily contributes to the wider goals and strategic objectives that most people have agreed to. The work that was undertaken over the last two years on the development of the strategy had huge involvement from stakeholders within the energy industry and from consumers generally. That was done to make sure that what we propose and what I hope we see published in the next few weeks reflects what people want to see. Setting a legislative target around such a minor aspect of microgeneration is not where I would necessarily start. I am not suggesting that that would not be appropriate at some later stage, but it would come on the back of having developed policies, gathered evidence, scrutinised that evidence and put forward proposals that we can see rather than simply plumping for one at this stage at one end of the spectrum.

Mr K Buchanan: I have a question about individuals who put in microgeneration equipment but do not connect to the grid and so are effectively self-sufficient. Take my affluent colleague from North Down, who has his own turbine. If Mike, for example —

Mr Nesbitt: Strangford. *[Laughter.]*

Mr K Buchanan: Strangford; I thought that you had moved. If he was not connected to the grid, would it make life easier? Using Mike as an example, he could use 4 kilowatts tonight for showering and cooking but use nothing tomorrow. Does that not create the problem?

Mr Reynolds: It creates an issue that has to be addressed, but it is not necessarily a problem. He is making a contribution to the energy that is required for consumers across Northern Ireland, which is a useful contribution. The suggestion in the Bill is that the Department will somehow sponsor the growth of that. To do that, we would have to secure resource from somewhere else. The evidence in the Ulster University report suggests that the people who gain the greatest benefit from that will be those who have the wherewithal — like Mike, no doubt — to provide those facilities. The sponsorship necessarily has to come from taxpayers and consumers, and when that cost is shared, those who are least able to pay it pay a disproportionate share.

We talk about putting consumers at the heart of the strategy, and one of our targets will be to address fuel poverty. It seems unreasonable for the first piece of legislation to be introduced following the publication of the strategy to be one that increases costs for the people less able to pay to the benefit of the people who are more able to pay.

Mr K Buchanan: Several witnesses referred to putting the cart before the horse. Do you agree with that assessment? Does the Bill putting the cart before the horse?

Mr Reynolds: It is the answer at the end of the continuum, when we have not started at the beginning of the continuum.

Mr K Buchanan: Yes.

Mr Reynolds: We need to assess what issues we are trying to address, what policies we need to put in place to address those issues and what policy levers, legislative or financial, we want to put in place

to give effect to those policies. We have started from the position of asking what lever we are going to use to introduce something that is not, in itself, particularly well-defined.

Mr K Buchanan: Thank you, Joe. I apologise to my learned friend from Strangford.

Mr Nesbitt: Suggesting that I would have a shower on a Wednesday — outrageous. *[Laughter.]*

The Deputy Chairperson (Mr O'Toole): No one else has indicated that they want to ask any questions, so thank you, Joe and Koichi, for your evidence and your time. We look forward to keeping in touch with the Department. Before I go, I presume — I would ask this anyway — that the Department will give us good advance notice of when the energy strategy is coming, so that Committee members will be ready to read and scrutinise it, even if that is on 24 December.

Mr Reynolds: I hope that it will not be 24 December. I have no doubt that the Department will keep the Committee fully apprised of all developments towards the publication of the strategy, as, in fairness, my predecessors and I have done. I have briefed the Committee on a number of occasions and, indeed, whether on or after publication, I am very happy to come back and go through the detail of it again.

The Deputy Chairperson (Mr O'Toole): OK. Thank you both.

Mr Reynolds: Thank you very much.