



House of Commons
Northern Ireland Affairs
Committee

**Electricity sector in
Northern Ireland:
Government Response
to the Committee's
Third Report of Session
2016–17**

**Second Special Report of Session
2017–19**

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Northern Ireland Affairs Committee

The Northern Ireland Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Northern Ireland Office (but excluding individual cases and advice given by the Crown Solicitor); and other matters within the responsibilities of the Secretary of State for Northern Ireland (but excluding the expenditure, administration and policy of the Office of the Director of Public Prosecutions, Northern Ireland and the drafting of legislation by the Office of the Legislative Counsel).

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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website at www.parliament.uk/niacom and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications](#) page of the Committee's website.

Committee staff

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Second Special Report

The previous Northern Ireland Affairs Committee published its Third Report of Session 2016–17, [Electricity sector in Northern Ireland](#), on 1 May 2017 as House of Commons Paper HC 51. The response from the Government was received on 15 December 2017 and is appended below.

Appendix: Government Response

Introduction

The Government thanks the Committee for its report into the Electricity sector in Northern Ireland. We recognise the importance of maintaining affordable, secure, and sustainable supplies of electricity for businesses and domestic consumers in Northern Ireland. We further recognise the particular challenges presented by the size of the market and support the continuation of a single electricity market covering Northern Ireland and Ireland.

The Government's Northern Ireland & Ireland Position Paper, published on 16 August 2017, sets out our commitment to maintaining the Single Electricity Market (SEM) on the island of Ireland and our desire to prioritise discussions around energy issues. The UK and EU have mapped out areas of cooperation, including the SEM, that function on a cross-border North-South basis, in line with the principles of the Belfast Agreement. We look forward to discussing solutions for preserving this cooperation in the next phase of negotiations.

Recommendation 1

We join the Scottish Affairs Committee in calling on the Government to establish a new process for consulting the devolved administrations on the design of, or amendment to, policies that are likely to have an impact on the electricity markets in the devolved regions. The Government should present details of a new, clear and transparent process, outlining how the Northern Ireland Executive and key stakeholders in Northern Ireland's electricity sector will be formally consulted on UK electricity policy changes in future.

Energy policy is primarily a transferred (or devolved) matter in Northern Ireland and decisions surrounding the design of, or amendment to, policies that are likely to have an impact on its electricity markets are therefore led by the Northern Ireland Executive.

The UK Government remains committed to ensuring the devolved administrations are fully engaged in the process of planning for the UK's departure from the EU, including with regards to the electricity market in Northern Ireland.

Recommendation 2

We also urge the Northern Ireland Office to add to its expertise such that it is better able to represent the interests of Northern Ireland's electricity sector in Whitehall. A

failure to represent adequately the interests of Northern Ireland's electricity sector within Government represents a significant risk to Northern Ireland's future prosperity, especially in the context of the forthcoming negotiations with the EU over Brexit.

The Government's Northern Ireland & Ireland Position Paper, published on 16 August 2017, sets out our commitment to maintaining the Single Electricity Market (SEM) on the island of Ireland and our desire to prioritise discussions around energy issues. Officials from the Northern Ireland Office are working closely on this with officials from the department for Business, Energy and Industrial Strategy (BEIS), the Department for Exiting the European Union and from the Northern Ireland Department for the Economy. We are committed in our negotiations to ensuring that the interests of Northern Ireland are protected and advanced. We remain committed to securing a deal that works for the entire United Kingdom – whilst recognising Northern Ireland's unique circumstances.

Recommendation 3

We urge the NI Executive, once it has been re-established, to update its Strategic Energy Framework as soon as practicable, to provide long-term policy clarity for the electricity sector and to guide investment in the near, medium and long-term.

As the Committee is aware, energy policy (with the exception of policy as it relates to nuclear power), is a devolved matter in Northern Ireland. The current political situation means that there is no Northern Ireland Executive in place at this point.

It would be better if there were an Executive in place, with whom we could engage directly on this and other matters. That is why we are working to ensure the resumption of stable devolved government in Northern Ireland. Until that happens, I and my department will continue to advocate for Northern Ireland's interests and needs at the heart of Government.

The Committee's recommendations will be considered in detail once the political situation is resolved and it is expected that they will provide a helpful input to consideration of key energy issues and priorities that should be factored into future strategic energy policy for Northern Ireland

Recommendation 4

We urge the NI Executive to establish a permanent advisory body for electricity policy. Its membership should represent all major stakeholders within Northern Ireland's electricity sector, including large energy users, generators, suppliers, network operators and domestic consumers. Like the EMAG, the body should have a mandate to examine the NI Executive's electricity strategy and identify long-term priorities and policy proposals. Such a body would help to ensure that electricity policy is given the priority it deserves within the Executive and that market participants have clarity and confidence in the Province's long-term energy strategy.

See response to recommendation 3

Recommendation 5

The UK Government should undertake an analysis to identify energy infrastructure projects in Northern Ireland which are beneficiaries of the EU's PC/ programme. Through consultation with affected parties, the Government should establish whether it would be preferable to retain Northern Ireland's eligibility for PC/ funding through continued participation in the European Commission's scheme, or commit to replicating PC/ financial and logistical support through a UK-specific scheme, so that strategically important current and future energy infrastructure projects remain commercially viable. A decision should be made as soon as possible so that businesses investing in PC/ projects have the necessary confidence in their commercial viability.

As we set out in our Northern Ireland and Ireland position paper, we will seek to provide certainty as soon as possible for citizens, investors, and businesses in Northern Ireland and Ireland on energy arrangements. We are committed to working with the Northern Ireland Executive, the Irish Government and with the EU to make sure that the island of Ireland continues to have access to affordable, secure and sustainable supply of energy for business and domestic use.

Recommendation 6

We urge the Planning and Appeals Commission to make its final decision on the interconnector as soon as possible so, if approved, construction can be completed well in advance of the anticipated generation supply deficit in Northern Ireland in 2021.

The Planning and Appeals Commission is an independent body. As such it would not be appropriate for the Government to comment.

Recommendation 7

We believe that, as it is the UK Government's intention to deliver 9 GW of additional interconnector capacity to the UK, it should first ensure the full utilisation of existing interconnection infrastructure within the whole of the United Kingdom. With this in mind, the UK Government should direct National Grid, Scottish Power and Ofgem to make the necessary investments in the Scottish grid to ensure the Moyle Interconnector is able to import and export electricity at its full capacity as soon as practicable.

The UK Government takes a market-led approach to interconnector development, leaving it to the private sector to identify the best opportunities.

National Grid has obligations towards market participants to provide access to the transmission network. In delivering this objective it needs to consider the impact on consumers of the associated network investment and operational costs. As a result, National Grid is seeking to optimise Moyle's network access to ensure the most efficient outcome for consumers in Great Britain, reflecting the fact that currently the network cannot take the full output of nearby wind farms as well as the full output from Moyle. National Grid intends to manage the system using operational measures and is taking a staged approach to Moyle's firm capacity.

In addition, National Grid is introducing a new process to enable Moyle to flow above its firm capacity when the network can accommodate it. From 11 November flows from

Northern Ireland to GB will be subject to a restricted 'firm' transmission entry capacity of 80MW. Moyle has agreed a schedule with National Grid that will amend its firm entry capacity to 307MW from 1 December 2019; 250MW from 1 Jun 2020; 160MW from 1 Nov 2021; and the full 500MW from 1 April 2022. Throughout this period flows from Great Britain to Northern Ireland will be unconstrained.

Recommendation 8

We recommend the UK Government consults with the regulators in Northern Ireland and Great Britain to determine whether a more formal mechanism should be introduced to improve collaborative working practices and to better facilitate the consideration of UK-wide interests in the operation of electricity markets. The Department for Business, Energy and Industrial Strategy should also take greater responsibility for ensuring that cross-border issues are resolved to the satisfaction of stakeholders in both the GB and NI jurisdictions in a timely manner.

We are committed to working with the Northern Ireland Executive, Irish Government and with the EU to make sure that the island of Ireland continues to have access to affordable, secure and sustainable supply of energy for business and domestic use.

BEIS ministers and officials have engaged over 1700 businesses and other stakeholders on EU Exit and the Industrial Strategy as part of our regional engagement during the Industrial Strategy green paper consultation through roundtables and other meetings, including over 600 at a series of receptions.

Recommendation 9

Noting the Executive's enthusiasm for inclusion in UK-wide plans for future interconnection with Europe, we urge the UK Government to give full consideration to Northern Ireland when determining landing points for potential future interconnectors with countries such as Iceland.

The UK Government takes a market-led approach to interconnector development, leaving it to the private sector to identify the best opportunities. This includes the selection of the market to connect to, as well as the route and the landing sites.

Recommendation 10

We join the former Energy and Climate Change Committee in calling on the UK Government and Northern Ireland Executive to address the regulatory barriers faced by investors in energy storage technologies. In particular, double-charging must come to an end and the Utility Regulator should ensure that the new Integrated Single Electricity Market (I-SEM) is designed with regard to the future role of storage technologies within the system.

Energy policy is a devolved matter in Northern Ireland and decisions surrounding regulation and the Integrated Single Electricity Market rest with the Northern Ireland Executive. Some grid-scale storage operators pay towards 'final consumption levies', even where they are not final consumers of electricity. In Great Britain, holders of Ofgem's new generation licence for storage (currently under consultation) will not pay towards the

four main consumption levies. Ofgem's consultation considers 'turning-off certain licence conditions for small storage operators, making it more appropriate for them to become licensed. The government has also clarified that certain storage facilities will not pay the Climate Change Levy, where appropriate conditions apply. Grid-scale storage operators may overpay network charges, as both consumers and generators of electricity. In Great Britain, Ofgem has confirmed that storage should not pay for certain aspects of network charges (e.g. the nonlocational aspects of demand-based network charges, and it should not pay twice towards charges for balancing the system). Industry is now expected to raise code modifications to enact these changes.

Recommendation 11

The Northern Ireland Executive should consider establishing an independent advisory body to identify connection applications with high strategic importance, and ensure these are given appropriate priority by NIE Networks when connection offers are sought.

See response to recommendation 3

Recommendation 12

We join EMAG in calling on the incoming Northern Ireland Executive to undertake a review into whether additional investment in Northern Ireland's electricity network, beyond what has been proposed by NIE Networks for the RP6 price control period, could have substantial benefits for economic development, security of supply and the deployment of sustainable sources of electricity.

See response to recommendation 3

Recommendation 13

The most recent generator profitability report, published in December 2016, indicated high profit margins in the sector. To aid transparency and provide greater confidence to consumers, the SEM Committee should ensure that its Generator Financial Performance reports are published annually rather than every two years.

It is for the SEM Committee to decide how best to fulfil its principal objective of protecting the interests of consumers of electricity.

Recommendation 14

We believe this proposal is worthy of further consideration. We call on the next Northern Ireland Executive to undertake a detailed analysis to determine the potential effects of a targeted reallocation of electricity network and policy costs. Consideration should be given to the likely short-term increase in domestic fuel bills, but also the wider benefits which could arise from higher levels of investment from energy-intensive industries.

See response to recommendation 3