

Energia's response to the Consultation on the Draft Renewables Obligation (Amendment) Order (Northern Ireland) 2007 - NIRO in the Single Electricity Market (May 2007)

Introduction

Energia was formed in 1999 as the competitive retail arm of Viridian Group PLC. Energia is one of a number of second tier suppliers trading within the competitive Northern Ireland (NI) market.

For the long term confidence and stability in the Renewable Obligation (RO) arrangements in Northern Ireland it is important that any change to the existing arrangements for the issue of NIROCs be kept to a minimum. It is also important that the overall administrative burden on both generators and suppliers by the introduction of the SEM is minimised.

This response addresses the questions raised in the order in which they appear in the statutory consultation document.

Q1: Do you agree that the introduction of SEM introduces complications for the issue of NIROCs to generators?

Yes, the introduction of SEM introduces complications but Energia considers that these issues are not insurmountable.

Clause 15 (4)(a) of Electricity Renewables Obligation Order (Northern Ireland) 2007 highlights the declaration made by the renewable generator that electricity generated is supplied to customers in Northern Ireland. This is critical criteria for the issue of NIROCs.

This is currently achieved by the existing bilateral contracts between the renewable generator and supplier. However under SEM, renewable generators will sell into the Pool, so the question is how do we verify that this electricity is supplied to customers in Northern Ireland?

Q2: Do you agree that a solution is needed to ensure the continued viability of the NIRO?

Yes, a simple solution is needed in order to continue to validate that renewable generated electricity is supplied to customers in Northern Ireland and to minimise the administrative costs. One solution is that renewable generators (mainly wind generators) are allowed to trade outside the pool (ie raise deminimis level to 100MW specifically for wind generators) and therefore bilateral contracts can be maintained.

However, Energia proposes that a simple declaration would be made between the renewable generator and the supplier that the supplier will use all reasonable

endeavours to supply the output exclusively to NI customers This declaration would be underpinned by a financial contract in the form of a Contract for Differences or other contractual arrangements under SEM with the equivalent effect of purchasing the power. We have submitted a form of simple declaration to NIAUR for consideration.

Q3: What, if any, other complications do you envisage the introduction of SEM might hold for NIRO?

As stated above, a simple solution is necessary and is achievable. Energia suggests that the ability to settle on a monthly basis, as is currently the case, be maintained. This would keep the administrative burden to a minimum.

Q4: Do you agree that action must be taken to address the potential complications for the issue of NIROCs to generators?

Yes, Energia agrees that action must be taken but a simple declaration should suffice (see Q10).

Q5: Do you agree that an assumption based on the average pool mix does not represent an appropriate solution? If not, please explain.

Energia concurs with DETI's assessment that the average pool mix does not represent an appropriate solution. Such an approach would create a burden on the pool administrator and can be easily avoided through each generator and supplier confirming their contractual arrangement through the proposed declaration. This issue has also been recognised as not providing a solution for LECs, Fuel Mix Disclosure, or for monitoring progress towards the renewable targets of each of the jurisdictions.

Q6: Do you agree that confirmation by the Administrator of the SEM pool does not represent an appropriate solution to the complication posed to the NIRO? If not, please explain.

Yes, in context of our response to Q5

Q7: Do you agree that a system based on the assumption that renewable generation is the first to be consumed in each jurisdiction does not represent an appropriate solution to the complication posed to the NIRO? If not, please explain.

Energia's accepts DETI's assessment that the proposed solutions are not auditable. In addition it is important to remember that the renewable obligation is levied upon suppliers. It is important to keep the link between generators and suppliers to ensure that the costs and benefits of ROCs are taken together. Otherwise generators could benefit from ROC income but not have to face the ROC obligation. If that happened, end customers would bear the costs but see none of the benefits.

Q8: Do you agree that a tracking system based on certificates such as REGOs does not provide a solution that can be implemented as required from 1 November 2007? If not, please explain.

The use of REGO's presents half of a potential solution. They guarantee that renewable generation has occurred in a specific location, ie Northern Ireland, which in itself is a criterion for the issue of NIROCs. REGOs do not however determine the deliverability of electricity to end customers within Northern Ireland. This obligation rightly lies with the supplier and how this can be achieved is shown in Q10. In addition there is no readily available mechanism for the issue of REGOs in Northern Ireland, and would mean using two concurrent certification systems. As indicated before a simple declaration by a generator and supplier should suffice.

Q9: Do you agree that a system based on bilateral contracts between generators and suppliers offers the optimum approach to addressing the SEM-NIRO difficulty by 1 November 2007?

Yes, a form of bilateral contract between generator and supplier can work. However this contract should not deliver unnecessary administrative burdens and existing settlement arrangements must be maintained. Other forms of contract arrangements under SEM are also emerging with the equivalent effect of purchasing the power, and the contractual form should not be restricted to Contracts for differences, as long as a generator and supplier are contracting to sell and purchase the offtake from a windfarm.

Q10: Does the Contract for Difference approach provide a suitable template basis for addressing the SEM-NIRO issue?

Energia agrees that a Contract for Difference (CfD) underpinned by a simple declaration contract (copy forwarded to Ofreg) will provide a suitable solution for addressing the SEM-NIRO issue. Again the contractual form should not be restricted to Contracts for differences, as long as a generator and supplier are contracting to sell and purchase the offtake from a windfarm.

Q11. What, if any, other potential solutions would you regard as appropriate to addressing the SEM-NIRO complication
(a) by 1 November 2007
(b) for the longer term?

The basis for the solution offered in Q10 is

1. To ensure that renewable generated electricity is delivered to customers in Northern Ireland.
2. To ensure that any such arrangement is simple, pragmatic and auditable.
3. Retention of existing arrangements for the matching of metered generation to metered supply on a monthly basis.
4. To ensure that the costs of any imposed administrative requirements are kept to a minimum.

Energia believe that over complicating this issue could make it unworkable. The contractual form should not be restricted to Contracts for differences, as long as a

generator and supplier are contracting to sell and purchase the offtake from a windfarm.

Q12: Do you agree that the solution being proposed in this consultation adequately addresses the legal complication posed from the NIRO by the introduction of the SEM? If not, please explain.

The solution being proposed can adequately address the legal complication posed by the introduction of the SEM with the following changes: -

1. *Clause 4 (11) "trading period"* - this term to be replaced by monthly or such term to reflect existing settlement arrangements for the claiming of NIROCs. Unless the pool administrator ensures that generator sales are matched to supplier purchases in each trading period it may be difficult to achieve an exact match in each half hour period. The settlement period of the existing arrangement should be the relevant period.
2. *Clause 4 (11)(a)* – meaning of this clause is unclear and should be reworded or removed. NOTE [This clause refers to the period – if it were deleted the reference to the period would have to be inserted into b) and or c).]

**Q13: (a) What, if any, additional costs do you envisage being associated directly with the solution being proposed in this consultation?
(b) Please describe and quantify any such additional costs.**

There will be minimal additional costs associated with this solution, mainly legal and some administrative costs. The primary function is to get a workable solution at minimum cost.

Q14: What, if any, option do you envisage to enable electricity not covered by a relevant arrangement under the proposed NIRO amendment to be eligible for NIROCs?

This solution will cater for all renewables generators whom sell into the Pool (MEC >10MW). Renewable generators with a MEC less than 10MW can operate outside the Pool and their existing/new bilateral contract with a supplier will be in compliance with the declaration made in Clause 15(4)(a) of the Electricity Renewables Obligation Order (Northern Ireland) 2007.

Q15: Do you envisage any other NIRO-related issues as a consequence of the introduction of the SEM? If so, please explain.

If the solution referred to in Q10 can be implemented then this should satisfy the criteria for the issue of NIROCs.