

NORTHERN IRELAND ELECTRICITY plc

**THE RENEWABLES OBLIGATION
(AMENDMENT) ORDER (NI) 2007
CONSULTATION (MAY 2007)**

NIE's RESPONSE

25 June 2007.



Introduction

Northern Ireland Electricity (NIE) welcomes the opportunity to respond to the DETI consultation on “The Renewables Obligation (Amendment) Order (NI) 2007”.

NIE has no major renewable energy generation interests in Northern Ireland. However, the Northern Ireland Renewable Obligation impacts both the Supply business (which had an Obligation and small micro generators with whom it contracts for both export electricity and ROCs) and the Power Procurement business (manages the NFFO contracts, the majority of which are de Minimus [except Lendrum’s Bridge] and will continue to manage the long-term NI generation contracts in SEM, including AES Kilroot that also co-fires and hence may be eligible for ROCs).

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

The current rules require that electricity generated in Northern Ireland must also be supplied there in order to qualify for NIROCs. The requirement for generators larger than 10 MW to participate in the all island pool makes it difficult to confirm that renewable electricity has actually been bought and supplied into Northern Ireland.

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

As the NIRO is the main government support mechanism for renewables, it is essential that this issue to be resolved in order to provide confidence to potential renewable energy investors.

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

Other issues may arise in the future as a result of two jurisdictions operating various support mechanisms, and working towards different targets in each country within the context of an all island electricity market.

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

Yes. This will be essential to maintain investor confidence in the NIRO.

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

Yes. It is clearly not viable to justify the allocation of ROCs on an average pool mix of renewables.

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. The pool administration has indicated that this would be cost prohibitive.

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.

This option appears to have the most logic in terms of the physical flow of “green” electrons. Renewable generators in Northern Ireland are connected to the distribution system. Electricity from a renewable generator will actually be used at the closest point of demand and it could be safely assumed that, in reality, that renewable energy generated in Northern Ireland is used to meet demand there. This situation may change if the quantity of renewable generation on the system increased significantly. However, this common sense approach does not appear to provide a sufficient audit trail for the authorities to issue ROCs on this basis so other options need to be considered.

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.

Yes. A REGO is a guarantee of where the renewable energy was generated, not supplied. To develop a tracking system to confirm which supplier it was sold to and in which jurisdiction the supplier sold it on to a customer, and within the timescales for monthly ROC submissions, would appear to be extremely complex and problematic.

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

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

Whilst this approach aligns with NIE’s response to the AIP “Disclosure of Information to Final Customers by Suppliers” Consultation, it is not without problems.

- A CfD is a financial instrument to provide a hedge against pool price fluctuations and is essentially decoupled from electricity. To add in a condition that links generation and supply would fundamentally change the nature of the contract from being a financial hedging arrangement.
- Some, particularly smaller (<10MW), renewable generators may have anticipated opting to operate in the pool without having CfDs in place.
- The requirement therefore to have CfDs in order to obtain NIROCs places a further barrier to pool participation for de Minimum generators. The

administration for ROCs for very small generators is already onerous. The more straightforward the solution, the better.

- Renewable generators would be obligated to have a CfD. Therefore NI renewable generators must contract with one of a limited number of Northern Ireland suppliers, potentially reducing the benefits to them of an all island market.
- Potentially, a renewable generator could have a CfD in place with a financial institution (rather than a supplier). It would need to guarantee that a Northern Ireland supplier was also a counter-party and this may provide added complexity for the NIROC issuing authority.
- CfDs have no relationship to physical delivery and in such markets, the volume of paper trades usually exceeds the physical demand by a significant multiple. Relying on a CfD as the instrument to demonstrate consumption in N Ireland could mean a supplier would need to present all their CfDs to demonstrate that the net position exceeds the generator output to ensure ROC entitlement. If this were required, it would be very burdensome for both suppliers and the Authority and is not an attractive outcome to contemplate.

It is therefore concluded that the CfD option proposed is not an appropriate solution.

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?**

A simple “relevant arrangement” between generator and supplier that fits the requirements of the ROC issuing authorities would appear to be the most sensible way to resolve this issue.

This arrangement would be audited by demonstrating that a supplier’s customer demand in Northern Ireland is equal to or exceeds the metered output of the generator seeking ROCs in any one month (or 4 week period).

This simple document could be approved by the RA and provided in template form to enable generators selling their output into the SEM pool to obtain ROCs. This would avoid the necessity for CfDs, particularly for smaller generators wishing to participate in the SEM pool. There should also be flexibility in the scripting of the “relevant arrangement” to ensure that, for instance, AES Kilroot and NIE PPB can have a suitable ‘relevant arrangements’ in place (even though PPB are not acting as a supplier).

The VAT position on this agreement should be clarified at the outset to ensure no VAT liability materialises in respect of the “relevant arrangement”.

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

As mentioned above, the NIROC issuing authorities would need to provide the appropriate guarantees that “relevant arrangements” allow the appropriate conditions to be fulfilled.

**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.**

The development and settlement of CfDs would require additional resource, credit arrangements to be established and cost on behalf of both generators and suppliers. Whilst this is unlikely to be a significant additional burden for large generators, it may present unwelcome costs for smaller generators who did not intend to use CfDs. In particular, the credit arrangements could create a barrier in the market that could frustrate financing and investment in smaller renewable projects.

A simple template “relevant arrangement” would minimise additional costs for all parties involved.

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?

With a simple “relevant arrangement” in place, there would be no reason that the appropriate arrangement could not be put in place. To maintain the integrity of the system, ROCs should only be issued if the conditions are met.

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

A further issue arises regarding the issue of LECs and the subsequent audit of this. It is suggested that for NI generators, the “relevant arrangement” outlined above could include the issue of LECs (assuming this is approved by HMRC). However, for electricity generated in ROI for example, a separate relevant arrangement would be required, as this would not need to cover the issuing of ROCs.