

Miss Davina Quigley,
Sustainable Energy Branch
Department of Enterprise, Trade and Investment
Netherleigh
Massey Avenue
BELFAST
BT4 2JP

The Renewables Obligation (Amendment) Order (NI) 2007

ScottishPower welcomes the opportunity to comment on the consultation regarding the Renewable Obligation (Amendment) Order (NI) 2007 and the relationship with the introduction of the Single Electricity Market (SEM) in Ireland currently planned for November 07.

As an active generator with over 350MW live wind generation in UK and a further 450MW consented/under construction in GB with in excess of 40MW live/under construction in Northern Ireland, we have a vested interest in having a robust and clearly defined set of guidelines in which to operate.

One of the purposes of introducing the SEM was to promote the creation of a single competitive, sustainable and reliable market in wholesale electricity in Northern Ireland and Ireland while as well as trading opportunities for increasing levels of renewable energy generation. We are concerned that the suggested changes to the RONI have the effect of reducing competition and re-instating the market dominance that currently exists. The suggested mechanism of a mandatory Contract For Difference (CFD) with a NI Supplier is not aligned with the ideal of competition and encouraging renewables envisaged under the SEM.

We believe that any changes to RONI should only be to support the introduction of SEM and that any changes should reflect the purpose of introducing the SEM i.e. to improve competition and support renewables.

There are only a small number of Suppliers in NI (7 active Supply Licences in NI (compared to more than 20 active Supply Licences in GB), resulting in a market that is not liquid and will take time to develop, with only a very limited number of counterparties who can provide the proposed CFD. This we believe could have a negative impact on the offerings made to independent generators by these Suppliers.

We believe that any revisions to the order must support competition in the new SEM arrangements, remove any barriers to entry for renewable generators, allowing new entrants to freely trade in the market and not be “forced” to enter into arrangements with dominant market participants.

We believe that proposal “(d) Renewable generation is the first to be consumed in each jurisdiction” is the best approach to encourage renewable development and to ensure the benefits of competition are maintained. The SEM already adopts an approach that this priority dispatch for renewables and an approach that has priority consumption for renewables is consistent with this approach.

Regarding the individual questions raised in your consultation of May 07 we have detailed individual responses below.

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

The introduction of a market mechanism in NI should not in itself introduce complications in relation to issuing ROCs. In GB there is a market for power and the issuing of ROCs is not complicated by presence of the market.

The limited number of active Suppliers in NI creates complications for issuing ROCs.

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

Yes a solution is required, but we do not believe that the solution proposed is consistent with the objectives of the SEM.

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

There is the potential that as a result of the legislative solution proposed, generators could be forced into arrangements with NI Suppliers that would remove the ability of the generator to participate fully in the new trading market, thereby creating an anticompetitive regime for independent generators.

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

Yes we believe that there is a solution that can be adopted which encourages renewable generation, increases competition, minimises administration and complexity.

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

We agree that the use of an average pool mix is not an appropriate solution. We believe that a better solution would be to resolve the problems with the REGO scheme and allow suppliers to accurately present their fuel mix statistics. Thereby allowing suppliers to clearly demonstrate their “green” credentials.

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.

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.

We believe that a solution where renewable generation is the first to be consumed in each jurisdiction is the best approach to encourage renewable development and to

ensure the benefits of competition, (mitigating the market power of a dominant player) are maintained for all generators and Suppliers alike. The SEM already adopts an approach that has priority dispatch for renewables and an approach that has priority consumption for renewables is consistent with this approach.

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.

We agree that the introduction of a REGO regime in time for the introduction of SEM is unlikely to be achievable but we believe that the introduction of a REGO regime should be arranged as soon as is reasonably practical. The introduction of a REGO regime would also help solve the issues highlighted in Q 5 above regarding fuel mix.

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?

We believe that there is a better solution as identified at Q7 above where this solution encourages both renewable generation and competition.

We believe that the legislated use of bilateral contracts reduces the benefits of competition and also introduces unnecessary changes to the NIRO legislation.

In GB generators have to submit an annual declaration to Ofgem confirming that they will not knowingly export power outside of UK. There is no legislative requirement to enter into an agreement with a Supplier in GB but some generators do this in order to meet the requirements of the declaration.

A renewable generation asset in Northern Ireland could be allocated NIROCs, subject to a yearly declaration to the regulator stating that they will not knowingly export power outside of UK (similar to the current arrangements with Ofgem for administration of the RO and ROS).

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

This is not the preferred solution, as it does not support the aim of the SEM to mitigate market power, improve competition and encourage renewables. Independent generators could be able to, and in terms of creating a liquid market, encouraged to participate in market risk either as a price taker or price maker. If renewable generators cannot participate in the trading market, this will play into the hands of the dominant players.

As noted above, the annual generator declaration approach used in GB could be adopted in NI as it does not require unnecessary changes to legislation and allows generators the freedom to adopt their own contracting approach.

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?

Please see response to Q7, Q9 and Q7 above.

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

The solution proposed is only one way of addressing the issue of ROCs but in our view is not the best approach, but is consistent with the provisions of the SEM. – see response to Q7.

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 costs associated with entering into a CFD rather than taking the market price under the SEM.

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?

See response to Q10.

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

Consideration should be given to a regime for supplier of last resort in relation to 3rd party generators as well as consumers.

Yours Sincerely

Grant R Barr,
ScottishPower Energy Wholesale
Cathcart Business Park,
Spean Street,
Glasgow
G44 4BE

0141 568 2000