



Northern Ireland Affairs Committee

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14 Queen Street
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A handwritten signature in black ink that reads "Dear Ms Pyper,".

Electricity in Northern Ireland: Follow-Up

On 26 April 2017 our predecessor Committee published a report on Northern Ireland's electricity sector.¹ This report sought to identify challenges and key issues for the sector, and recommend policy changes to the UK Government and Northern Ireland Executive. The Committee focused on the lack of a long-term electricity policy for Northern Ireland, potential threats to security of supply, issues arising from Brexit, and changes which could result from the initiation of the Integrated Single Electricity Market (I-SEM)—which is intended to build on the work of the SEM and deliver increased levels of competition. The Committee's recommendations aimed at achieving a more secure, affordable, and sustainable energy sector for Northern Ireland.

Since the previous Committee's report, the Northern Ireland Executive has remained collapsed, meaning the continued absence of an energy policymaking body for Northern Ireland, and there have been a number of developments in Northern Ireland's electricity sector.

In December 2017 the provisional results for the first round of the new I-SEM Capacity Remuneration Mechanism (CRM) Auction were announced.² These were confirmed in January 2018, and several generating units at AES UK & Ireland power stations in Kilroot and Ballylumford were unsuccessful in securing new contracts. As a result, AES UK & Ireland announced that it expected two generating units at Kilroot to close on 23 May 2018, and one generating unit at Ballylumford power station to close by the end of 2018.³

¹ Northern Ireland Affairs Committee, [Report on Electricity Sector in Northern Ireland](#), 26 April 2017.

² EirGrid and Soni, [Capacity Market – Provisional Capacity Auction Results](#), December 2017

³ AES UK & Ireland, [Kilroot Power Station Faces Closure Following All-Island Auction Results](#), 25 January 2018

Negotiations between the UK and the EU regarding the UK's withdrawal from and future relationship with the EU continue, and it remains to be seen what, if any, consequences Brexit will have for the all-island electricity market.

In light of the above developments, and the ongoing absence of a Northern Ireland Executive, we decided to [follow-up](#) on our predecessor Committee's inquiry. We have collected written and oral evidence on a number of electricity issues, including security of supply, the I-SEM, the proposed closures of generating units at Kilroot and Ballylumford power stations, and the challenges created by the ongoing absence of the Northern Ireland Executive. We thank you for your contribution to this evidence gathering.

Since we took evidence on this subject, it has been announced that the go-live date for the I-SEM has been delayed from 23 May to 1 October 2018, due to "IT defects" which need to be resolved.⁴ Concerns have also been raised that reduced generating capacity of Hunterston B nuclear power station in Ayrshire will limit the electricity which is available to Northern Ireland from the Moyle interconnector.⁵

This letter reflects evidence submitted on these topics and asks for additional information on a number of areas where the Utility Regulator has responsibilities.

Transition to the I-SEM and proposed station closures

We have heard concerns about the implications the transition to the I-SEM, and the new Capacity Remuneration Mechanism, could have for generating capacity and security of supply, and the cost of electricity in Northern Ireland.

Our predecessor Committee found that the Single Electricity Market, established in 2007 between Northern Ireland and the Republic, has brought considerable benefits to Northern Ireland. The SEM has allowed for Ireland and Northern Ireland to benefit from greater economies of scale, cheaper electricity prices, and improved security of supply. These benefits are expected to continue with the initiation of the I-SEM, which we have been told will further increase competition, drive down costs to consumers, spur industry innovation, and make the electricity sector more flexible. While the Committee supports the all-island electricity market, we are concerned that, if not handled properly, the transition to the I-SEM may negatively impact Northern Ireland's businesses, security of supply, and electricity prices.

In January 2018, the results for the first I-SEM Capacity Remuneration Mechanism (CRM) Auctions were confirmed. These auctions saw AES UK & Ireland, Northern Ireland's largest electricity generator, lose key electricity contracts for its Kilroot and

⁴ SONI (System Operator for Northern Ireland) Statement on Postponement of Isem Go-Live, 17 April 2018

⁵ News Letter, [Power supply fears prompt call to keep Kilroot open](#), 7 May 2018

Ballylumford power stations. These losses prompted AES to propose the early closure of generating units at these power stations.⁶ AES explained that:

Without new contracts, these ... units cannot cover their fixed costs and the two generation units at Kilroot are expected to close when the ISEM market commences on 23 May 2018, with the Ballylumford generation unit expected to close on 31 December 2018.⁷

We have heard concerns that the early closures of generating units at Kilroot and Ballylumford power stations could—in the absence of the new interconnector between Ireland and Northern Ireland, which is not expected to be operational before 2020—jeopardise Northern Ireland’s security of supply, and increase the cost of electricity for consumers in Northern Ireland.

AES accepted that, amidst the changing dynamics in the electricity sector and the low capacity requirement set by SONI, its bid was not competitive, and told us that they felt that it had received strong signals to exit the market. Robin McCormick, General Manager of the System Operator, emphasized that the CRM “auction was a competitive process, [in which] everybody knew what the numbers were and how many megawatts were required in Northern Ireland. The results are as we have seen.”⁸

We recognise that the CRM auction process and its requirements were clearly defined, and that the CRM auctions represent only one of the contract opportunities available to Northern Ireland’s electricity generation companies. Even so, the Committee is concerned regarding the effect that the I-SEM market structures will have on Northern Ireland’s businesses.

Under normal procedures, we understand that closures of power stations and other key energy infrastructure components must be preceded by a three-year notice. This period serves to give adequate time to the Executive, the Utility Regulator, and SONI to prepare for changes to the grid. Robin McCormick explained, however, that AES “requested a derogation from that three-year period to close its plant on 23 May [2018].”⁹ To process the derogation request, the Utility Regulator has asked SONI to complete an assessment on the impact of the proposed closures. SONI’s assessment will inform the decision-making processes of the Utility Regulator in handling AES’s derogation request.

We understand that the Utility Regulator recently met to consider AES’s request, on the basis of an assessment produced by SONI, but did not come to a decision, and has asked SONI to conduct a further assessment before a decision on the derogation is reached.

⁶ AES UK & Ireland, [Kilroot Power Station Faces Closure Following All-Island Auction Results](#), 25 January 2018

⁷ AES UK & Ireland, [Kilroot Power Station Faces Closure Following All-Island Auction Results](#), 25 January 2018

⁸ Q6

⁹ Q7

Although it is not the place of this Committee to take a view on the outcome of auctions for electricity capacity, recent events raise both immediate and wider issues which require attention and resolution, and we would therefore welcome your response to the following questions.

Given the above, we would welcome your response to the following questions.

1. On what basis will the Utility Regulator decide on the request for derogation made by AES regarding the early closure of generating units at Kilroot and Ballylumford?

a. For what reason were you unable to make a decision on AES's request, and what further information have you sought to inform this decision?

b. What assessment have you made of the implications of delaying this decision, given that AES has requested to close units at Kilroot power station at the end of May?

2. If generating units at Kilroot and Ballylumford are closed this year:

a. How can the Utility Regulator ensure Northern Ireland's security of supply?

b. What impact will there be on the price of electricity for customers in Northern Ireland?

3. What would the Utility Regulator's view be of the sale of Kilroot and/or Ballylumford power stations to a new operator?

a. Have you had any discussions with AES about this possibility?

4. What implications will the delay to the go-live date for the I-SEM have on the all-island electricity market, security of supply for Northern Ireland, and the request by AES to close generating units at Kilroot and Ballylumford this year?

5. What assessment has the Utility Regulator made of how the CRM auctions and other I-SEM market systems will affect the financial viability of electricity generators in Northern Ireland, and what implications this could have for security of supply in Northern Ireland?

a. What action could be taken to make the transition to the I-SEM more smooth and stable for Northern Ireland's businesses?

6. To what extent does AES's requested derogation to close generating units at Kilroot power station raise wider questions about the rules for plant closures?

a. Is there a need to review industry rules about power station closures in order to avoid similar issues in the future?

We thank you for your consideration of our questions, and we look forward to hearing your response. Given the time-sensitive nature of these issues, we would appreciate an early response to the questions regarding the proposed closures at Kilroot and Ballylumford by 31 May 2018.

We recognize the Utility Regulator's important role in overseeing Northern Ireland's electricity market, and deciding on requests for derogation from the usual process for closing generating capacity, and urge the Utility Regulator to be diligent in deciding on AES's request, and considering the wider implications of the outcome of the outcome of the Capacity Remuneration Mechanism.

Yours sincerely,

Dr Andrew Murrison MP
Chair, Northern Ireland Affairs Committee

Andrew Murrison