



Northern Ireland Affairs Committee

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The Rt Hon Karen Bradley MP
Secretary of State for Northern Ireland
Northern Ireland Office

16 May 2018

Dear Karen,

Electricity in Northern Ireland: Follow-Up

As you know, 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 were aimed at achieving a more secure, affordable, and sustainable energy sector for Northern Ireland.

The Government responded to that Committee's report on 15 December 2017, recognising the unique electricity challenges facing Northern Ireland but reaffirming that energy policy is a devolved matter.² Given the lack of a functioning Executive at that time, the Government deferred consideration of the recommendations until "the political situation is resolved."

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.³ 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

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

² Northern Ireland Affairs Committee, [Electricity sector in Northern Ireland: Government Response to the Committee's Third Report of Session 2016–17](#), 15 December 2017

³ EirGrid and Soni, [Capacity Market – Provisional Capacity Auction Results](#), December 2017

to close on 23 May 2018, and one generating unit at Ballylumford power station to close by the end of 2018.⁴

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.

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.⁵ 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.⁶

This letter reflects the evidence we heard on these topics and considers the UK Government's role in helping address the challenges we have identified.

Absence of the Northern Ireland Executive

Northern Ireland has the potential to be a leader in energy technologies, given its substantial renewable technologies and the I-SEM being the first ever system of its kind. The evidence we have received, however, has argued that these opportunities are hindered by a lack of long-term policy.

The current energy strategy, laid out by the Northern Ireland Executive in its 2010 [Strategy Energy Framework](#) (SEF), outlines electricity policy through 2020. Given the substantial changes in Northern Ireland's electricity sector since 2010 and the expiration date of the SEF, this policy is approaching the end of its shelf life. We have heard that the lack of guidance post-2020 has the potential to adversely affect the attractiveness of the electricity sector for investment and create the risk of higher prices for consumers.

We have been told that the development of a coherent, long-term strategy for electricity policy is **essential** to ensuring Northern Ireland's investor attractiveness. The evidence we have heard suggests an urgent need for an updated strategy framework for Northern Ireland's electricity sector. We have heard that a long-term

⁴ AES UK & Ireland, [Kilroot Power Station Faces Closure Following All-Island Auction Results](#), 25 January 2018

⁵ SONI (System Operator for Northern Ireland) [Statement on Postponement of Isem Go-Live](#), 17 April 2018

⁶ News Letter, [Power supply fears prompt call to keep Kilroot open](#), 7 May 2018

policy would guide public and private-sector players in this sector and benefit both consumers and businesses.

Numerous figures in the electricity sector have argued that the lack of long-term policy will damage investment prospects. SONI reported that despite many exciting and lucrative project proposals—including technologies like battery storage systems, renewables, and electric vehicles—there is no policy in place to facilitate these developments. Likewise, our written evidence has suggested that investment levels have started to fall despite the proven success of past projects. The Northern Ireland Renewables Industry Group noted that, in the 3rd quarter of 2017, the number of planning applications for renewables projects “dropped by more than 60% compared to the previous year, and to levels not seen since 2002/3.”⁷

Our evidence has also suggested that the lack of a long-term strategy may negatively affect consumers by raising energy costs. The current electricity system has changed significantly since 2010, shifting away from top down generation toward bottom up, small scale generation. Existing policies do not adequately reflect these system changes. Due to these changes and the lack of new policy, we have heard that uncertainty in the sector may cause prices to rise. Northern Ireland already has among the highest energy costs in Europe,⁸ and further increases would disservice consumers.

The challenges currently facing Northern Ireland’s energy sector have grown greater since our predecessor Committee reported in April 2017. Neither the Executive, due to its collapse, nor the UK Government, on the basis that electricity is a devolved matter, has worked to resolve these issues.

While energy policy is a devolved matter, the problems associated with a policy vacuum will only become more pressing with time. These challenges need to be resolved whether or not the Northern Ireland Executive is functioning, and there could be grave consequences for consumers and security of supply if these challenges are not met. Our evidence suggests that certainty about longer-term energy policy may help to address such problems and strengthen Northern Ireland’s electricity sector, but these measures require Government intervention.

1. What steps can be taken to respond to the challenges faced by Northern Ireland’s electricity sector in the interim period before the Executive is re-established?

2. What role, if any, does the UK Government expect to play—given the ongoing absence of a Northern Ireland Executive—with regards to Northern Ireland’s electricity sector in relation to: security of supply, attractiveness to investment and cost to consumer?

⁷ Written Evidence submitted by the [Northern Ireland Renewables Industry Group](#)

⁸ Northern Ireland Affairs Committee, [Electricity Sector in Northern Ireland](#), 26 April 2017.

Proposed station closures and security of supply

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 Ballylumford power stations. These losses prompted AES to propose the early closure of generating units at these power stations.⁹ 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 2018.¹⁰

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."¹¹

⁹ AES UK & Ireland, [Kilroot Power Station Faces Closure Following All-Island Auction Results](#), 25 January 2018

¹⁰ AES UK & Ireland, [Kilroot Power Station Faces Closure Following All-Island Auction Results](#), 25 January 2018

¹¹ Q6

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].”¹²

We understand that the Utility Regulator 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.

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.

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

a. Will you, in the absence of an electricity policymaker for Northern Ireland, be content that Northern Ireland’s security of supply is assured?

b. What concerns will you have about the increase in electricity prices in Northern Ireland, particularly given the already high rates that electricity customers in Northern Ireland already pay?

4. What would your view be of the sale of Kilroot and/or Ballylumford power stations to a new operator?

The all-island electricity market and integration with European markets

Our predecessor Committee found that the Single Electricity Market, established in 2007 between Northern Ireland and the Republic of Ireland, 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. All indications from the Prime Minister and the Government suggest that the I-SEM will continue post-Brexit and that all-island energy integration will not be affected. An overwhelming majority of our written and oral evidence supports this continuation of energy integration, and there is a need to ensure that the operation of this market is not affected by Brexit.

The Integrated Single Electricity Market (I-SEM)—which is intended to build on the work of the SEM and deliver increased levels of competition—was set to begin operation in May 2018. We have heard that the I-SEM will drive down costs to consumers, spur industry innovation, make the electricity sector more flexible, and

¹² Q7

stabilize security of supply. That said, we have also heard concerns that the first round of auctions under the I-SEM could lead to the early closure of generating units at Killroot and Ballylumford, which could adversely affect security of supply in Northern Ireland.

It has now 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.¹³ It is not yet clear what implications this will have for the all-island electricity market, or for the proposed early closures of generating units at Kilroot and Ballylumford.

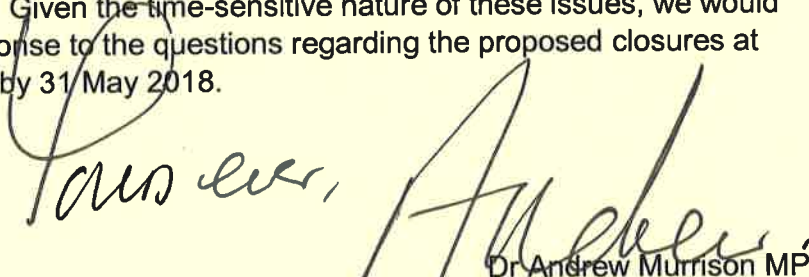
Much of our evidence has argued that further integration of the all-island market with the European Internal Energy Market will benefit consumers. Industry representatives emphasized that "a stronger, interconnected market between Northern Ireland, [Great Britain], and the wider Europe will deliver a larger and more efficient market." These considerations will be particularly relevant if the Republic of Ireland decides to integrate its electricity market directly with the EU—an [interconnection project](#) that it has considered recently.

5. What is the Government's position on the continued operation of the I-SEM and other all-island energy integration arrangements post-Brexit?

a. What arrangements will need to be agreed between the UK and the EU to ensure that the I-SEM is not adversely affected by Brexit?

6. What is the Government's view on the possibility of greater integration of the UK electricity market—including Northern Ireland—with the European Internal Energy Market?

We thank you for your consideration of our questions, and we look forward to receiving 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.


Dr Andrew Murrison MP
Chair, Northern Ireland Affairs Committee

¹³ [SONI \(System Operator for Northern Ireland\) Statement on Postponement of Isem Go-Live, 17 April 2018](#)