

Northern Ireland Affairs Committee

Oral evidence: [The electricity sector in Northern Ireland](#), HC 51

Tuesday 18 October 2016, Belfast

Ordered by the House of Commons to be published on 18 October 2016.

Members present: Mr Laurence Robertson (Chair); Tom Blenkinsop; Mr Nigel Evans; Lady Hermon; Danny Kinahan; Jack Lopresti; Dr Alasdair McDonnell; Ian Paisley; Gavin Robinson.

Questions 522-615

Witnesses

- I: Dr David Dobbin, Chair, and Andrew Webb, Energy and Manufacturing Advisory Group (EMAG).
- II: Stephen Kelly, CEO, Manufacturing NI, and Cecil McBurney, Director of Fabrications and Plant Engineering, Bombardier.

Written evidence from witnesses:

- [Manufacturing NI](#)

Examination of witnesses

Dr David Dobbin, Chair, and Andrew Webb, Energy and Manufacturing Advisory Group (EMAG).

Q522 Chair: I will open the public session. Good morning. Gentlemen, thank you very much for joining us. As you know, we are carrying out an inquiry into the electricity sector in Northern Ireland. We are towards the end of our inquiry, so we are very pleased that you are able to join us. Would you like to briefly introduce yourselves, tell us a little bit about your organisation and perhaps we can go from there?

Dr Dobbin: My name is David Dobbin. I suspect that I am here in my capacity as Chair of the Energy and Manufacturing Advisory Group, which was set up by Minister Bell in January of this year—December/January—to look at energy costs and their impact on the competitiveness of the manufacturing sector. We produced a report that was submitted to the Minister in March. With me today is Andrew who was head of the secretariat who were doing a lot of the investigative research and support work for the group.

Andrew Webb: As David said, I am Andrew Webb. In this role I was part of the Ulster University Economic Policy Centre, and with colleagues—who I believe you met in June, Dr Keatley and Professor Hewitt—we provided the research and secretariat support to the Manufacturing Advisory Group for Minister Bell.

Dr Dobbin: Just by way of background to me personally, I was CEO of Dale Farm. They are the UK's largest dairy co-operative and the fifth largest energy user in Northern Ireland. I also sit on the chair of the Agri-Food Strategy. Food and drink represent about 30% of manufacturing in Northern Ireland. They are the largest indigenous sector. I am a former Chairman of the CBI. As well as that, I sat on the board of Invest NI, so I have experience in regional and economic development.

Q523 Chair: Thank you. That is very useful. Given your wide-ranging background in business, what do you see as the challenges facing industries from energy?

Dr Dobbin: Northern Ireland's energy costs are well documented as being generally higher than they are elsewhere in the UK, and significantly higher than the median in Europe. Part of this is because of our peripheral situation and the small critical mass, but also some of it is down to structural problems with connectivity and also legacy issues with the privatisation of energy, electricity generation in Northern Ireland and some of the structural setup.

There was an attempt through creating the single market, by bringing all of Ireland together in generating supply and demand, to create critical mass, but we find ourselves in a situation where energy costs in southern Ireland are significantly lower than in Northern Ireland, even though they



are on the same electricity grid. We also have a situation where, if you look at domestic costs, they are much closer to the median and compare competitively quite well against other regions, whereas costs for business—particularly large energy users—do not. There is clear evidence that we have a problem with energy costs, particularly electricity, for the larger and more intensive users. In our report we tried to look at actions that would help reduce those costs or bring them back into line.

The timespan we had for our report was so short we did not have time to go into gas so we focused on electricity. In gas we are seeing the widening of the network to the west. That is going to bring natural gas for the first time to the west and mid-Ulster, places like Dungannon and Cookstown where there is significant manufacturing. So the situation with gas is improving in terms of provision but, again, there are higher costs with the extra distribution cost to get gas into Northern Ireland.

The other problem that we encountered in the report, when we reviewed the situation, was weaknesses in the grid. There are a number of areas in Northern Ireland where there is an inability to increase the supply to growing businesses. Indeed, in Dale Farm, which I manage, we wanted to put a £30 million investment in Cookstown, which would create 100 jobs, and we were told there would be no electricity capacity to supply the new plant and, if we wanted to put the plant in, we would have to run our own grid line for 27 miles to Magherafelt and beyond to get the plant into being.

We had evidence from a number of businesses and a number of submissions from the business bodies about weaknesses in the grid. The fact is that parts of the grid, particularly in the west of the Province, are not fit for purpose.

Q524 Chair: You mentioned that the energy prices in the Republic of Ireland were somewhat lower than Northern Ireland. Why is that?

Dr Dobbin: Just to put one caveat in that when you are making comparisons to southern Ireland the prevailing exchange rate will have an impact. At the time we did the report exchange rates were different from where they are now. With the current exchange rates those costs have come more into line, but we would expect significant inflation in Northern Ireland electricity costs as prime energy costs, which are really in dollars or gas in euros, will feed back in at a higher level if exchange rates stay at the current level.

Why they are lower, in our view from the research that we did, was that we think there is a policy at government level in southern Ireland to ensure that large users have competitive costs. One of the big issues that we wrestled with was: how do you price overheads and grid costs to different users? If the large users that are on 24/7 on the grid and taking significant amounts of electricity disappeared off the grid, the cost to the rest of the users would significantly increase. We are seeing a trend of either companies such as Michelin close because they can't afford



HOUSE OF COMMONS

Northern Ireland electricity prices or the large users, such as Dale Farm, Bombardier and others, are seeking to come off the grid because they can't compete at grid prices. As they migrate off the grid that is going to push the costs up for other users, so one of the issues that we have in Northern Ireland, in terms of competitive costs versus southern Ireland and elsewhere, is that elsewhere in Europe, particularly Germany, there are policies to discriminate in favour of large business to ensure they have competitive electricity costs. Secondly, electricity is priced to reflect the benefit to large users in carrying the baseload for the grid. We believe the regulator in Northern Ireland is preoccupied with consumer costs and making sure that the focus for her and her staff is that consumer costs are competitive. We believe she does not have the same focus or ownership of electricity costs to business, particularly large energy users.

Q525 **Chair:** Is there bound to be a conflict, though, between the two?

Dr Dobbin: You could argue there is a zero sum game in terms of how you spread cost. However, if you don't provide large energy users with competitive energy one of two things will happen. One is that they will suffer in the market and the higher energy costs could put them out of business or reduce their sales and exports, or they will seek to lower their costs by self-generation and coming off the grid, and both things are happening.

If I take Dale Farm, they are putting in the largest solar farm in Northern Ireland to help generate their own electricity. They are also looking at combining heat and power. Bombardier is putting a large biomass electricity plant into Belfast. Again, they generate their own electricity where they do not have any grid costs because they are then down to the prime cost of generation. When they come off the grid they will leave a gap. It might be that in the short term that is favourable because there is a tightness in supply and demand, and if some of the large users cut back that might give some relief to the fact that there is some nervousness about whether we can meet winter demand in the next couple of winters. However, in the longer term it will mean that the overheads have to be borne more by consumers and, ultimately, if the big guys come off the grid, it will push the costs up for everyone else.

Q526 **Gavin Robinson:** Good morning. I am sorry I was a bit delayed, as the biggest show in the country was holding me back. But let's not focus on those considerations.

I am not sure if you had the chance to hear the evidence that we took from Mutual Energy and Paddy Larkin yesterday. There was some surprise in the room that he was focusing on how cheap the energy we generate is and how we end up exporting a lot of it to Scotland. Do you have any colour you can give to us? How is it so cheap we are exporting it but yet our manufacturers are struggling with the cost?

Dr Dobbin: If you look at the total costs that a consumer or business pays for their electricity, the generation costs are I think almost a



minority, Andrew; they are certainly a smaller element than you would imagine. The area where the big argument is is how you carry the public service obligations and the grid costs. If they are exporting electricity that export, as far as I am aware, does not carry any overhead from the Northern Ireland grid or from the public service obligation. As GB spot prices rise because of shortages of electricity at peak times, then one of the problems we do face is the generators have the option of using the interconnector to sell it back the other way, or indeed to sell it into southern Ireland.

There is also a demand for Northern Ireland electricity from GB because we produce relatively high amounts of green electricity compared to the rest of the UK. The big difference there is that it is not the cost of generation—I am not saying that the generating cost could not be better—but it is how we share out all those other overheads, and they are quite large when you look at the total bill.

Q527 Gavin Robinson: Has your group conducted any modelling to see what the impact of largescale energy users, like Bombardier or yourselves at Dale Farm, starting to produce your own energy is going to be? I think you are right to suggest that then puts the burden on smaller users and domestic consumers.

Dr Dobbin: One of our recommendations was that the Department for the Economy—it was DETI when we did the recommendations—carried out such a study. We believed that it was critical that their energy department started to look at modelling, for example, investment in the grid. We believe that would be a good investment and, rather than add cost, we think long-term investment in the grid could help grow demand and indeed ultimately reduce costs because the grid investment would be recovered over a long period of time.

We again asked DETI if they would start to model more investment in the grid, that they would invest in a model: what would happen if we could get large users on or off the grid and so on? There were quite a number of our recommendations that were recommendations to the Department to carry out such studies, modelling and further research particularly into investment in the grid, to get experts together to see what the cost of such investment could be and what the cost benefits would be as well.

Q528 Gavin Robinson: Yesterday we heard from NIE that they are involved in finalising RP6, through that investment programme from 2017 through to 2023, I think. They have suggested £508 million is required for investment. From your perspective—and they used the Forth Bridge analogy yesterday—is that £508 million standstill in grid infrastructure and improvements or is that getting close to the type of additional improvement that you were talking about?

Dr Dobbin: A large part of it is to maintain and replace the existing network. They have put in—and I have read RP6 and I have met Nicholas Tarrant to review it with him—some additional recommendations where



HOUSE OF COMMONS

they would start to do what we were talking about. Nicholas was an observer on our group, which is really to bring options to the regulator to invest more money to reinforce the grid, particularly in areas of growth.

For example, in Belfast Harbour we are seeing the Titanic Quarter development and we are going to need more grid there. Mid-Ulster and the north-west and the north-east of the Province have weak grids. For example, there are people wanting to set up data centres in Colerain and there is not enough power for the data centres to open. There are known areas where reinforcement in the grid should help facilitate economic development and growth. That is certainly one of the things that we have suggested that the Department look at, where the economic hotspots are, where the weakness in the grid is and see then where judicious investment would facilitate economic growth and avoid blackouts, brownouts, for example.

My plant in Cookstown and Dale Farm had 15 blackouts last year, where the plant went down because of the grid going down. Each blackout cost Dale Farm something around £40,000 to £50,000 to stop the plant and start it again. So there are some major issues out there and that is why some of the big users are even talking about going off the grid because of reliability, never mind cost.

Q529 Gavin Robinson: If I pick up on the comments you made about the Utility Regulator and the focus on domestic consumers, my understanding is that that is the statutory framework in which it operates. Have you called for a change to that framework to suggest we should be looking at big energy users in business and, more importantly, do you detect a reticence within the Utility Regulator for such a change?

Dr Dobbin: I will take the two parts of your question, Gavin. The first part is that one of our key recommendations was for Government to put something into the programme for Government targeting energy costs and taking action so that there will be outcomes to reduce them or make them more competitive. We said set recommendations both for the Executive and for the regulator to relook at the way she apportions cost and the way she sets charges for large energy users. I don't know, Andrew, if you want to come in.

Andrew Webb: We had a lot of evidence from other countries where economic development is a feature in electricity pricing, and we see costs loaded on to domestic consumers to benefit industrial consumers. We did not go beyond an appetite, and we had not challenged the regulator on an appetite, but we know that the statutory remit under which they work. I would take a view that economic development should feature in energy, certainly for attracting inward investors, that FDI picture. Firms are looking at cost competitiveness and quality, energy features there and we cannot currently offer them a competitiveness energy base, so there is an economic development angle to play on energy that the regulator is currently prevented from doing by the statutory rules.



HOUSE OF COMMONS

Dr Dobbin: On the second part of your question, Gavin, which was the intent or direction or even level of interest from the regulator, I think at the moment they are preoccupied and entirely focused on the implementation of I-SEM, the integrated electricity market charging model that is targeted to come in in October 2017. When we asked about modelling or looking at other things, the answer we got from the regulator was that her staff were flat out on I-SEM and could not take on any more workload.

One of the problems on I-SEM is that, to be frank, the clock could be partially reset in October 2017 and no one knows what the new level of charges are going to be, including the regulator. She has to wait until she runs the new system. In that system the whole business for charging from the generator changes.

The other big issue on I-SEM is that, while that is being introduced, companies cannot buy forward energy from generators or from their suppliers and in the past six months, with the current low energy prices in the wholesale market, the big users were not able to buy forward in the way they would normally do because people could not commit beyond I-SEM being introduced.

Q530 Gavin Robinson: While we recognise that the Utility Regulator is a devolved office, do you think it would be useful for this Committee to make recommendations in changing the terms of engagement for the Utility Regulator to ensure industrial use is well catered for?

Dr Dobbin: We talked to her and her team about introducing an economic development strand. Her brief and her response was, "It is entirely up to the legislative". The deciders are the people like yourselves on whether that would happen. Certainly it is one of our recommendations that that is introduced. We are not talking about something that is suddenly going to disadvantage the normal consumer or increase the risk of fuel poverty. We are talking about something that hopefully, if it is done sensibly, could bring costs down for all users.

Q531 Mr Nigel Evans: You have spoken about the huge extra costs to businesses within Northern Ireland, and you have given some examples of the reaction on behalf of these companies, that they may be generating their own, going off grid and all that. Do you think it is also leading to some of these companies who are looking to locate deciding not to locate in Northern Ireland, if they are big energy users, and going to the Republic of Ireland instead, and do you have any examples of that?

Dr Dobbin: Certainly, if you were an energy-intensive company—and if you take, for example, the business that I manage, Dale Farm, energy was a higher cost than labour—you would not come to Northern Ireland. You would go to Scandinavia or countries where there is significantly lower electricity cost. Realistically, if you look at inward investment, there are very few energy-intensive investors coming. Most of the people now



HOUSE OF COMMONS

investing in the UK—most, if not all of them—are largely in the knowledge sector and are coming for tradable services reasons, IT, financial services. There are still companies investing in the UK and Northern Ireland who are in manufacturing but southern Ireland would give you all sorts of advantages.

At the moment, right now, if you look at the spot prices they will have normalised because of currency movement, but in the longer term we would expect that currency to work its way through and put up the costs of starting. We are already seeing in the media—and certainly I was experiencing it in the business—inflation of around 7% to 8% in manufacturing input costs coming through because of the euro and the dollar strength and, therefore, the high cost of imported raw materials, including energy.

I am not sure if that answers your question. Data centres is the only area that I am aware of. Several companies looking at having data centres in Northern Ireland—to go along with the IT sector for cloud computing support—have not come to Northern Ireland because of the availability of electricity. For example, with Project Kelvin, we have some of the best latency in broadband in internet connection, so there was a view that we should maybe look at bringing data centres into the north of the Province, where you are linking straight on to the transatlantic cable and you could provide cloud services, computing services to the American market. The problem there is that those companies take large amounts of electricity. In some cases the grid could not support them, and in other cases the cost would be prohibitive because they are very energy-centric and not very much labour intensive. You can imagine the type of business it is, a light side type of business with equipment rather than people.

Q532 Mr Nigel Evans: You spoke about the huge costs of connecting somebody as well, if it was an industry.

Dr Dobbin: Cost and delay. One of the biggest complaints we had from the business body submissions, particularly I think the Chamber of Commerce and the IOD, was from their members about the long amount of time needed to connect as well as the high cost. We talked to Nicholas Tarrant from NIE about this. He and SONI, who manage the distribution network, both agreed that we could reinforce the trunk roads, the main arterial routes for electricity, and then the new users would only be paying for the local connections and that those local connections hopefully would be not cost prohibitive, but also that with the grid reinforced then hopefully the length of time needed to make the local connection would be much smaller than to make these larger connections on the grid.

Q533 Mr Nigel Evans: In essence, because of that, rural areas in Northern Ireland are suffering any potential investments into manufacturing in their areas?



Dr Dobbin: It depends. Some areas would be in areas where there would be grid deficiency. There would be other rural areas probably in the east of the Province—it is not as simple as east-west but if you look at where the grid is there is a much stronger grid in Northern Ireland on the east side of the Province, where both the generators are in the larger centres of population. The rural areas there are okay but as you move north and west you start to find some gaps in the grid.

Q534 **Mr Nigel Evans:** We heard yesterday that by the end of next year, this market of connecting industry is going to be opened up to competition. We heard that there are about 11 companies already registered to be able to do this business. Do you think that is going to be a boost or do you see it being so sclerotic that even opening it to competition is not going to help?

Dr Dobbin: As far as I know—and I already use subcontractors to do the work and, therefore, they have competition within their own supply chain—competition should be welcome, whether it is at generator level or network level because it hopefully will create pressure on suppliers to do better and to compete for work.

However, because of the small scale in Northern Ireland, we just have to watch that we don't take away critical mass from people like NIE and then create a number of suboptimal suppliers. I don't know enough about that subject to comment, but certainly in general some people would regard Northern Ireland as suboptimal and, therefore, we need to participate in the UK, European and Irish grids. That is why interconnectivity and the North-South Interconnector and the East-West Interconnector with the rest of the UK are vital, so that one we can bring in power when we need it. Secondly also, that the generators then have more market to shoot at. As Gavin talked about earlier, they can export electricity if they have spare electricity to the UK or to the GB grid and bring their costs down.

Andrew Webb: I will just come up on a point around connection and the length of time to connect. It is my understanding that there is no hierarchy of connections, so you just join a queue no matter what size you are. Again, that ties back to economic development: if there is a large user that wants to make an investment, they join the back of the queue. It might be worth considering a policy that weights various connections in terms of the benefit that it could bring to the grid and to Northern Ireland.

Dr Dobbin: NIE's advice to us in the Manufacturing Group was that they would welcome some form of oversight body independent from them that would perhaps advise on priority or adjudicate on priority, because at the moment they have to follow a strict first come, first served. One of the other issues—

Q535 **Mr Nigel Evans:** Since we started this inquiry we have found there are so many bodies out there that are involved in the energy industry. It is



HOUSE OF COMMONS

mind boggling, I have to say, so an extra one probably would not make any difference.

Dr Dobbin: It may well be that those could be rationalised down and consolidated.

One of the other issues that we have not touched on is that Northern Ireland has significant opportunity for renewables. A number of renewable operators are facing the same problem, where they cannot get their wind farm or their solar farm connected to the grid. Although there is a debate about the benefit of those renewables, we would sum it up that they are expensive to install but very cheap to run. Once they are there you should use them because the marginal cost for both wind and solar is virtually zero. It is all overhead. We would be keen to see all of those people connected.

They are suffering from the same grid problems as manufacturing, where the grid cannot make the number of connections that are needed. They are generally the wind farms to the west of the Province where the grid is weakest. There are examples of people building wind farms, say in Derrylin in Fermanagh, where it took nearly a year to get the wind farms up and running but they could not get a grid, having applied maybe two or three years earlier.

There is a dysfunctional arrangement in terms of the grid and I am not sure that exists to the same extent in the rest of the UK. Most of the grid went in probably in the 1950s and 1960s and most of it went in at a time when generation was consolidated with one or two generators. Now you have a plethora of small generators around the Province. But there are benefits if southern Ireland can get over half of its output from wind on certain days.

That brings me to the other big issue that we did not have time to look at, which is storage. If we do go towards more renewables then we will have to look at storage or some method of using that power. That was another recommendation, that a lot of large users are prepared to flex their demand if encouraged by financial incentives by the regulator. We believe that there could be better use made of those large users to manage demand around peak times, particularly around the tea time, 4 pm to 7.00 pm peak demand period.

Q536 **Mr Nigel Evans:** You talk about the delays. Can you give an example, if you are a manufacturer and you want to be connected to the grid, of what sort of time you are looking at if you are at the back of the queue?

Dr Dobbin: I could give you a personal example where at Dale Farm we made major investments. One is in Ballymena, which is in a strong part of the grid, and we applied to significantly increase our load in our Ballymena plant. We had that work carried out within six to eight months of applying for a new transformer and new connectivity. In Cookstown we made a similar request to be told there was not the grid capacity and



substation capacity. We would have to run a line back to at least Magherafelt and there would initially be a cost of maybe £7 million or more. On top of that it could be two years to get it if we paid that money. The £7 million ruled the investment out. Now we are waiting for gas to come to the west to generate our own electricity. The proposal might go ahead when gas comes in 2017, but gas is running late, mainly because of farmer negotiations and wayleaves, so it is not the fault of the pipeline company. That is an example of six months versus two years.

Q537 Mr Nigel Evans: Is the state of the energy industry such that it is potentially costing jobs in Northern Ireland?

Dr Dobbin: I went on the record publicly that NIE advised me to do the investment that I had planned for Cookstown and Ballymena. They said, "If you put it in Ballymena we can supply the power you want there". I think we have a postcode lottery, which means that if you are in the east of the Province it is easier to develop economically, grow and get grid connections. Even in the east there are problems and in greater Belfast, Belfast Harbour, there is a weakness and the Titanic Quarter if we develop the quarter as much as we want. There are weaknesses in other parts, so it is not entirely strong in the east but generally around areas where the old generators were, the big generating centre was around Larne. Around that Larne, Ballymena, Belfast area you have a very strong grid and then if you go west to Cookstown, Fermanagh, except where you have a very weak grid or connections that are at the end of the grid, which means that you are on a smaller cable with less ring wiring, if you know what I mean. In Ballymena there would be grid connections going in both directions, whereas in Cookstown, Tyrone and Fermanagh it will be radial. It will be at the end of the connection.

Andrew Webb: That is absolutely right. Northern Ireland is not currently in a position to compete for investment where there are high energy requirements.

Q538 Lady Hermon: It has been fascinating evidence; worrying, concerning, but very helpful for our inquiry.

Let me just follow on from the east-west questions that my colleague Mr Evans has been asking about the grid. We hope a North-South Interconnector will get approval and be built. It is going to start in Benburn in County Tyrone and then it is going to come down the far side of County Armagh and then cross the border. Will that improve the access and the availability of electricity in the west of the Province?

Dr Dobbin: No, from my knowledge, the main benefit from the North-South Interconnector would be to remove the higher generating constraint costs, so areas at time of peak demand will be able to access generation capacity in southern Ireland or in Northern Ireland. Therefore, you have a more efficient market response and there would be a constraint saving—my understanding, Andrew—from memory of about €20 million a year.



Andrew Webb: Yes.

Dr Dobbin: It was constraint costs for generators. The grids we are talking about would still be weak, so that would strengthen the north-south network and connect the generators in the north and the south to the main grid in either jurisdiction, but the grids themselves would still be the same. The grid to the west and north-west would still be weak. It would just be that main trunk road bringing a big pipe of electricity north or south, depending on where the demand was, and it would allow the most efficient generators to come online first, whereas, at the moment, there are certain times of the day when we are buying expensive electricity from generators because the interconnector cannot handle any more.

Andrew Webb: It improves the operation of the market but it does not improve the capacity of the grid for all the companies to get on the grid.

Q539 **Lady Hermon:** That clarification is very helpful. You mentioned that in fact the prices of electricity are much lower in the Republic of Ireland. That is exactly what you said, "The cost of energy is much lower in the Republic of Ireland".

Dr Dobbin: For large users. That will be for large users.

Q540 **Lady Hermon:** So the impact of the North-South Interconnector would bring the price of electricity down?

Dr Dobbin: No. That is why we are saying the frustration here is that, even with that, the charging mechanism in the north will still mean that costs for the larger users are governed by the regulator who is charging higher for large users than their opposite number in southern Ireland. One of the things we would call for would be some harmonisation so that—if you think about it, particularly the smaller companies are competing head on against our counterparts in southern Ireland—they have the same opportunity to buy electricity at a competitive price. That is more down to the regulator's charging mechanism than it is to the interconnector.

Andrew Webb: Yes. There are a lot of policy costs loaded on to electricity and energy prices in the north. The south has different mechanisms to do that and that accounts for a lot of the differential.

Dr Dobbin: And not just the south. Andrew did a study for the group when we were meeting and it showed there were quite a number of European countries where policy costs were met by government for large users, particularly green costs and the costs of environmental compliance, to take them off the user and the government was paying for them. In fact, it was really a backdoor method of subsidising electricity costs for certain users.



HOUSE OF COMMONS

Andrew Webb: Absolutely. Germany in particular was an example of where the Government is promoting efficiency and competitiveness of businesses through an energy mechanism.

Q541 **Lady Hermon:** We heard evidence yesterday—and you may be aware of it—that there was a repeated complaint that there was no joined-up thinking or policymaking between Westminster and the Northern Ireland Assembly, and in fact some of the other devolved Administrations as well. Is that your experience? When you reported in March, what happened to your report? I picked up a programme for government and it was reflected in the programme for government.

Dr Dobbin: My understanding, Sylvia, was that in the past a major issue in Northern Ireland policy tended to follow GB or Westminster policy, but there has been more divergence in recent years, partly because we have more renewables and policy maybe since devolution has started to diverge. We are waiting for the Department to produce a new strategic energy framework. We are hoping that within that framework there will be some enlightened thinking. Hopefully some of our recommendations will come through into that framework.

One of the other issues on grid reinforcement we have not talked about is that we also need to make sure that the grid on the Scottish side is strong enough so that the East-West Interconnector can function fully. Certainly we know the regulator has been in touch with her opposite numbers in Britain to try to ensure that reinforcement of the grid in Scotland and other parts of England takes place to improve connectivity feeding into both sides of the interconnector, and my understanding is that that is happening.

Q542 **Lady Hermon:** In your report did you look at the capacity of the Moyle Interconnector, picking up on your link with Scotland?

Dr Dobbin: Yes.

Q543 **Lady Hermon:** What was your recommendation in relation to the Moyle Interconnector?

Dr Dobbin: It is not so long ago the Moyle Interconnector was not working. It was not functioning properly, and then there was work done on an extra cable, and that got it back up and running.

Northern Ireland needs as much connectivity as it can with the UK, Ireland and Europe. Indeed, the UK, as you are all aware, relies heavily on imported French nuclear electricity at certain times of the day. So the bigger grid that you are a part of, the more you don't have constraints or the more you are not paying generators to run locally to produce marginal power that you could import from a grid at a cheaper rate. It perhaps also creates more security, so that if a grid sees a generator go down you have support from Britain or southern Ireland to come in and pick up that load.



HOUSE OF COMMONS

The smaller your grid the more spinning reserve you have to have and at the moment, if we have less interconnectivity with southern Ireland we are using more expensive generation and marginal sets at certain times of the day. That is my understanding of it.

Q544 Lady Hermon: You have very wisely advocated improving interconnectivity between Scotland, GB, Northern Ireland and the Republic of Ireland in terms of electricity, but improving the connectivity does not solve the problem that you have identified in your earlier part of the evidence and that is the grid. You said there were gaps in the north and the west of the grid. Whose fault is that?

Dr Dobbin: I am not sure it was fault. It is just a case of—

Lady Hermon: It is a very serious shortcoming. You have explained how it has had impacts on your business in Cookstown and—

Dr Dobbin: My job and the group's job was to try to come up with recommendations to improve matters, rather than get into a blame game. We believe there is a case to be made for investment in the grid, and indeed by Government as well as the users because we would invest in road networks. We would invest in broadband to the rural community. We believe there is a case to be made for investment in the grid to ensure that we have a 21st century world class facility in Northern Ireland that would improve our competitiveness. I believe that would be money well spent by the public.

However, even in the case of the grid being paid for by the consumers, I think there is a case to be made for more investment as well. We believe the regulator is constantly looking at reducing investment on the basis that it is going to push up electricity costs in the year the investment was made whereas some of this investment is over a long period of time. That goes back to the modelling that Gavin was talking about. We think there is a case for an urgent piece of work to be done using SONI, who manage the grid, NIE Networks, the Department and other users, to work out where the gaps are, what it would cost to fix them and what would the cost benefits be. I believe that if that was modelled a case would emerge for investment.

Q545 Lady Hermon: So you are not going to point the finger of blame at anybody. The key components are SONI, NIE Networks and the Department. They should all get together and come up with money to invest. Is that what we are saying?

Andrew Webb: We believe the broadband analogy is a very appropriate one. There has been significant investment in getting Northern Ireland's broadband speeds up and access out to rural areas. That is a private sector but that took an injection of public monies. We are now at a point with the electricity grid that an investment could be wholly justified on economic development grounds, and significant benefits could be gained for Northern Ireland from that injection of public cash. That would be my opinion.



HOUSE OF COMMONS

Dr Dobbin: What we have said in our recommendation 7—and I am assuming, Chairman, that our report has been tabled to the group, that you have a copy of it?

Chair: Yes.

Dr Dobbin: In recommendation 7 we want a long-term strategic plan for the grid and the network and the system operator, solely NIE, that is going to meet future needs: look at where the development is taking place, facilitate economic development, enable the uptake of renewables and industry self-generation. The other issue that you have is if Shorts or Bombardier goes off the grid to produce its own electricity, even it can become a mini-supplier to the grid, but none of this is possible because the grid isn't robust enough to allow this interconnectivity. So we think the Department needs to set up such a study and that may involve Government investment.

The investment we are talking about, in terms of the total investment versus Northern Ireland's investment in public infrastructure, would be relatively small because it would be over a number of years and these are investments, like broadband, which are going to bring benefits to all our citizens.

Q546 **Lady Hermon:** Have you had any initial, positive response from the Department?

Dr Dobbin: The timing of our report was unfortunate. We produced our report just as the Executive went into the purdah period before the election. Following the election, the DETI was changed to the Department for the Economy and there was a restructuring. Then there has been Brexit and the amount of work that is part of that. I have met the administrative adviser on several occasions to discuss follow-up to the report but I am not personally aware of what he or the Department are planning. I suppose that is a question you would have to ask them.

We have given our 24 recommendations and my understanding was the Department saw merit in many of them, so we were not fighting the Department. They were observers at the group and I don't believe they were unhappy with the final report. Andrew, is that the indication we got?

Andrew Webb: That is a fair reflection.

Dr Dobbin: I think it was relatively welcomed by the Department but I think, unfortunately, the timing went straight into the purdah, the election and the change in department.

Lady Hermon: Yes. Thank you so much.

Q547 **Danny Kinahan:** Apologies for being slightly late. It is a great report and it opens up so many questions. One of them is recommendation 6, "The regulator shall continue to work closely with GB counterparts to ensure constraints over Northern Ireland power exports are fully addressed".



One of the reasons for having this was to look at how we could all work better with the GB. What key constraints do we need at Westminster or what legislation? Yesterday one of our witnesses said we needed to change legislation at Westminster because it was—if I get it right—too bitty and there were different people all fighting their own corners but no one pulling it together.

Dr Dobbin: I am not sure if legislation is required. Certainly we need the joined-up thinking to ensure that if there are weaknesses in the Northern Ireland grid and interconnectivity with the GB mainland that needs to be addressed and the similar or necessary work on the British mainland side is being undertaken. My understanding is that the regulator and counterparts have discussed that and the grid providers in GB.

It also seems to me that if we are leaving Europe we are going flat out at the moment in producing I-SEM, which is really the European bubble, and there maybe needs to be a British model following Brexit as to how is Britain going to operate. For example, Britain imports energy from France; Northern Ireland imports energy from southern Ireland; gas is being imported into the UK, so the UK is heavily dependent on energy supply from eastern Europe and the EU. I am assuming that in Brexit discussions nationally there would be significant attention on ensuring that the energy arrangements are sensible. There is so much talk at the moment about trade. Well, energy is going to be a big part of that trade and I am hoping that the Government negotiators get us a good deal. We are going to need to be part of the European grid, and then I suspect in Northern Ireland we need to make sure that we have consistent policies with whatever is happening with British energy and British energy costs, because our main market for Northern Ireland output is the British market even though we are exporting worldwide.

Q548 **Danny Kinahan:** You have an input into the Executive here. Have you had any discussions individually across the—

Dr Dobbin: When we were producing the report we met with Minister Bell. I met with him several times and his advisers and the departmental officials. Since the report was produced I have met with the new Minister's adviser. I have not had a formal meeting on the report with the current Economy Minister. Again, I am not quite sure where it is but I think the officials have probably been preoccupied with the public audit review of the RHI initiative. That is now over and I would hope to see a surge in activity from the Department of Energy.

Q549 **Danny Kinahan:** Thank you. You have touched on the Renewable Heat Incentive or renewables. We have also heard that they are absolutely key to our case. In your opinion, what has gone wrong and what can we do better?

Dr Dobbin: Our recommendation there is that we need to have a competitive process on renewables, so rather than facilitate every farmer in Northern Ireland to have his own wind farm or his own biogas or biomass plant, there should be a competition and that those plants that



offer the best cost and the best whole life options over the life of the assets should be taken forward and there should be a cost competition for the electricity just as there is at the moment in terms of generators. On renewables there were very generous incentives that, to be frank, probably brought in too many players and put further pressure on the grid to connect too many small farms rather than maybe a few economic larger ones.

Q550 Danny Kinahan: Do we need some form of auditing or checking system that is monitoring the whole thing all the way through to make sure it is done properly?

Dr Dobbin: Yes. I think the intention was good in trying to encourage that Northern Ireland could meet its renewables obligation, which we have more than done. You talked earlier about competition with NIE. I think when there was no competition, when there was a sort of free for all for very generous amounts of money, which meant in some cases the support was worth more than the cost from the customer for the electricity, probably that wasn't wise and we will probably have a legacy cost from that in so many years.

Q551 Tom Blenkinsop: In Westminster there has been a situation where the Government has had a Minister who specifically deals with smart metering. Is there something similar in Northern Ireland or do you think there should be?

Dr Dobbin: There were a number of submissions to us that Northern Ireland would have the perfect case to go to smart grid, because we are so small and confined that we could become almost a test case for the smart grid in which people who supply electricity and large users would be interconnected to manage supply and demand and get a much more efficient use of both renewables and generated energy. Again, I am not aware that there is any specific uptake of that idea, but I know it is something that has been discussed. If you consider there are 2 million people, we would be a nice test market. We are used quite often by a number of large consumer product companies to test market products, because we have a small, confined market and the costs would be relatively low. For example, if we are putting in a new grid we may as well put in a smart new grid rather than just replace the existing grid with the same technology.

Q552 Tom Blenkinsop: You talk in your recommendations about demand management innovation. Do you think Northern Ireland is ahead, in the middle or the back of the curve in terms of demand management?

Dr Dobbin: My experience is that the larger companies who are struggling the most with energy costs have been very good at putting in energy conservation and innovation, but that Northern Ireland has a large number of smaller companies. They lack the sophistication or perhaps the wherewithal to invest in energy conservation. They are almost in the catch-22 that the cost is prohibitive but they really need to



do it. There have been a number of energy schemes. It is large multinationals or large players who are taking them up and the SMEs uptake has been pretty low. There is an opportunity to reduce cost by conservation and there is an opportunity to, for example through innovation, look at sharing renewables.

I know you took evidence from the University of Ulster and they had a couple of examples where they set up schemes to take power from a river and share it between a council and several companies. So there are opportunities in Northern Ireland, in my mind, to create consortia between industry generators—and those generators could be quite small—to say we can create something that works on a local scale.

Andrew Webb: We are quite dominated locally by fixed price tariffs, so there is currently no signal coming through the system to use less energy at peak times or use more at non-peak times. I think there is probably a job of work to be done on how tariffs are structured to get people to behave differently at different times of day.

Dr Dobbin: If you had smart meters you could do that, although the information I have is that elsewhere in the UK they are having second thoughts about installing smart meter in every home. I am getting mixed signals about whether it is working or not elsewhere but, certainly for the large players and for the renewable energy farms, I think there is a case to be made for making them smart so that SONI, the grid operator, can manage the network in a better way. I think probably they are the guys to talk to, and I am sure you have, because they have a DS refund which has money for innovation and it is largely about increasing the uptake of renewable energy and trying to reduce the overall cost. I think they have a budget of £75 million to £80 million towards innovation for people who are coming up with ideas to improve the efficiency of the network.

Q553 Tom Blenkinsop: You also said in your evidence about addressing any administrative marker or regulatory barriers to the implementation of innovative energy solutions. What regulatory barriers do you see? We have taken other evidence that talked specifically about lack of technical specificity to legislation with specific technologies coming through, generic legislation for generation, no adequate legislation for storage. Do you think they are the regulatory barriers that stop innovation?

Dr Dobbin: For example, one of the things we looked at is in certain countries in the world large users can do private deals, for example a large company does a deal with a solar farmer or a wind farmer, whatever. In Northern Ireland there would be regulatory barriers against that. The regulatory barrier would be, "You must buy if you are taking electricity through the grid". Based on the regulatory charges, you cannot set up any other innovative measurers or any other ways that would maybe incentivise either the user or the generator to be more efficient or overall optimise the grid. You are compelled to buy at the regulated cost, and the regulator also controls the investment from the network. The regulator controls how much can be invested in the grid and the regulator



HOUSE OF COMMONS

controls how users, particularly large users, interact with generators. So there is no scope to do any one-to-one arrangements to my knowledge. Andrew, is that right? We looked at that.

Andrew Webb: Yes. I have nothing to add to what David has just said.

Chair: Thank you. Any other questions? No. I think it has been a very useful session. Thank you very much indeed.

Examination of witnesses

Stephen Kelly, CEO, Manufacturing NI, and Cecil McBurney, Director of Fabrications and Plant Engineering, Bombardier.

Q554 **Chair:** We will resume the public session. Gentlemen, thank you very much for joining us. You probably sat through most of the last session but, as you know, we are conducting an inquiry into the electricity sector in Northern Ireland. We are just coming towards the end of our inquiry, so we are very pleased you are able to join us. Would you like to briefly introduce yourselves and your organisations? Tell us what you do, please.

Stephen Kelly: Good morning, Chairman and Committee. Stephen Kelly is my name. I am Chief Executive of Manufacturing Northern Ireland. We are a representative body on behalf of the broad manufacturing sector, with the specific aim on the costs of doing business. Obviously, your inquiry into energy prices and electricity in particular is of a very great interest. Can I thank the Committee for ensuring both ourselves and your previous contributors, the customers' voices, in this debate. I think it is a very welcome opportunity that you have given us.

Cecil McBurney: Good morning, Chairman and Committee. Thank you for the opportunity to come here to present some oral evidence in terms of the electricity sector. I currently work in Bombardier, which is the largest manufacturer in Northern Ireland in the aerospace industry. My current position there is director of part of operations and the plant engineering. Part of that role is to look after energy for Bombardier in Belfast.

Q555 **Chair:** Thank you very much. How do you see the prices? We have heard some evidence saying they are higher, some evidence saying they are not higher in Northern Ireland. From your point of view, where does it sit in terms of energy costs?

Cecil McBurney: Because obviously we are a global industry competing across the market, if you look at our sister sites in Canada, we are paying somewhere between two and three times more. Today it is two times more and if you went back a couple of years it is three times, and it led us down the road of looking at our energy strategy where we have seen year after year energy prices growing and outstripping inflation. It was only when we had the recession that we saw the prices starting to fall back, but we are now at a point again where we are starting to see them



HOUSE OF COMMONS

rise between the euro exchange and the commodities market starting to grow again.

Q556 **Chair:** Is it all international pressures or are there domestic policies that are increasing the costs as well?

Cecil McBurney: I think it spreads across both. There are a number of local ones—that I think Stephen will pick up on more detail—that are affecting us as well.

Stephen Kelly: For most of the manufacturing sector, energy prices tend to be the third largest input cost. For some, particularly in the creamery business, which you may have heard from your previous session, it is probably the second largest input cost after raw materials. Manufacturing is a very cost-sensitive part of the economy. It competes both at markets at home and abroad, and every effort is made to be as productive as possible to reduce costs as much as possible.

Energy has been an issue that has been very widely articulated, particularly the cost in Northern Ireland now for a number of years. What we have noticed, and particularly through the work from the Energy Manufacturing Advisory Group chaired by Dr Dobbin, was that issues around wholesale price, issues around the grid have an impact but, increasingly levies and Government schemes and taxation as part of the Electricity Bill are becoming much larger issues in many ways than particularly the grid element.

When we look at the price differential between the two parts of this island, for instance, right now the energy market, despite the fact that we share a single generating market, a single wholesale market, prices in the north are some 20% to 22% more expensive than they are in the south. When you look at the reasons behind that it is largely due to the way that the tariff or the cost of grid is being distributed between customer groups and, secondly, those policy costs. If there was a competitive market on the island where we had an opportunity to trade and to purchase energy at the same price that would make a massive contribution to reducing not just Bombardier's costs but all customer costs.

Q557 **Chair:** It is obviously a very complicated issue but could you go into it a little bit more as to why the prices in Northern Ireland are higher than in the Republic? We heard a little bit in the earlier session but could we have your take on that, in simple terms if possible?

Stephen Kelly: I have followed the work of the Committee over the last number of months, Chair, and I share the Committee's frustration in many ways in trying to make what is a really complex problem very simple. In its simplest form, the cost of energy is the amount that you consume times the price that you are able to purchase it at. Many manufacturers do what they can to reduce the amount of consumption



HOUSE OF COMMONS

that they have, but there is very little, apart from a bit of competitive element, that they can do about the price.

The price that everyone gets comes from the Single Electricity Market. That price is absolutely consistent north and south, the same price in Dublin for the wholesale price as it is in Derry, for instance. Where the divergence happens is where the Irish Government, in particular, has taken decisions to skew the collection of the cost of the grid to support creating jobs and creating wealth. They took a decision—I think it was in 2009 or 2010—that in order to rebuild their economy they wanted to make sure that their industry had competitive prices, and they lifted a proportion of costs from the business sector and put those costs across the domestic sector. So that is half of the difference.

The second part is hung on those policy costs and Cecil and other customers will have a bill which may have 20 to 25 different lines of costs in it. Some are things like support for domestic energy efficiency; some are costs of supporting renewables; some are costs across a variety of policy areas. When you take those costs, plus how costs are skewed between customer groups, that is what actually creates the difference in price.

Q558 **Chair:** So if I am an ordinary consumer in 3 High Street or wherever in Dublin, I would be paying more than I would be at the same property in Belfast, would I?

Stephen Kelly: The Utility Regulator publishes a quarterly review of where prices are on a competitive basis right across Europe, for both business consumers and domestic consumers. What that shows is that domestic consumers in Northern Ireland are paying significantly lower than the European average and consumers in the Republic are paying in or around roughly about what the European average is. However, whenever you move into the non-domestic sector all parts of business, all non-domestic consumers are paying more than the European average. In fact, when you get to the larger consumers of electricity, not just the Bombardiers but even mid-sized and small companies, they are paying either the second or third most expensive energy prices in Europe. It is only the very smallest of business consumers who are paying in and around the average, but, again, they are still more than the European average.

That is why we have been calling on our departments here and utility regulators and others, to create a competitive field that allows Bombardier and others to make sure that they get a price that is allowing them to compete globally, and also allowing them to compete more locally as well.

For us, energy comes into three competing demands. One is on sustainability, and there has been a big drive towards decarbonising our energy generation through renewables. The second pillar there is the whole issue of the security of supply, ensuring that we have 17,092



megawatts available on a half hour period at some point in the winter months. For both of those areas there are targets, so there is an actual number against those demands. However, when you get to the third area of responsibility in and around price, there is no target whatsoever.

What we are calling for, in a very complex and difficult policy area, is if there was the protection of a target that would ensure that policymakers, regulators and others would deliver that target for you. They have been very successful in security of supply and sustainability. A target on price, and a message from this Committee and others on a target on price, would allow others to do the work to get us to that position.

Chair: Very well explained if I may say so. Thank you very much.

Q559 **Jack Lopresti:** Thank you for coming and for very interesting opening remarks. Now that the British people have decided to be free and independent again, what do you feel are the particular opportunities that relate to power generation in regards to the Brexit situation? Also, Bombardier is a global company. Has the perception changed as far as being optimistic about Britain's place as a truly global trading nation in your forward planning and in relation to Ulster in particular?

Stephen Kelly: I will take the first part of the question. Frequently over the last number of years the Department had said that, "We can't take decisions because of a fear of some EU investigation, particularly around state aid". We presented them with evidence from Germany and other parts of Europe but even on our doorstep where politicians and the departments have taken decisions and have not been subject to state aid investigations. Leaving the EU removes that argument completely, so they are left with no alternative but to explain away that they did not take decisions in that regard.

What we have been trying to uncover in the last number of weeks is that we believe—and anybody who goes into the European documents finds them very difficult to navigate around—that there is an import tariff for energy costs from outside the EU to within the EU. Some detail I read just last night said it was about 50 cents per megawatt hour as a minimum import tariff. That would have the impact of adding thousands of pounds on to Bombardier's bills and others' bills. Our access to the single market would have an impact on energy bills here potentially negatively, but also there is a freedom there to make decisions or at least remove some of the barriers to making decisions, or perceived barriers that there may well be.

It came as a surprise to many customers that when the First and Deputy First Minister wrote to the Prime Minister that they flagged up the issue of energy, because up until that point there was no real fear that there was a problem in that area. If it is purely on the ability to maintain the Single Electricity Market that we have on the island and if there is a need for some legislation around that, fine. However, if there is the potential for additional costs to import energy through the North-South, the one that



we currently have and potentially the second interconnector, if there is a potential that that would come with a tariff or a levy or a charge additional to that, then that would be very damaging to the industry here.

Q560 **Jack Lopresti:** Would you say the prevailing emotional mood is optimism or pessimism?

Stephen Kelly: In terms of the UK's decision to leave the EU?

Jack Lopresti: Yes.

Stephen Kelly: There is not a lot of optimism. I think part of the issue is that lots of people—particularly as a border community—find the ability to trade across that border in an unhindered way a very positive thing. We do understand that the decision has been taken and everyone needs to work towards that.

There was some very useful evidence yesterday to a Lords Committee from the CBI and others, which begins to really unpick what the challenges are but also, potentially, what actions could be taken to militate against problems and also look at some opportunities. We are undertaking some of that work on behalf of our organisation right now as well.

Q561 **Jack Lopresti:** From Bombardier's perspective?

Cecil McBurney: From Bombardier, and if I talk more on the energy side because obviously there are a lot of things that I am not as knowledgeable on and I think Stephen sort of went there anyway. But because of the Single Electricity Market and how it factors within the EU, there is a concern where that is going to leave us with prices in the future. It strengthens the case that we have and the strategy that we have taken over the last few years of coming off grid or taking a high percentage off grid to lessen that impact whatever way it goes.

Q562 **Jack Lopresti:** Can you give us an indication on what the corporate view is of the future in Northern Ireland in relation to a Britain out of the European Union, just a hint of where you are thinking?

Cecil McBurney: Mine would only be a personal view at the minute not at a corporate level.

Q563 **Dr Alasdair McDonnell:** In some of your evidence, Stephen, you were somewhat critical of the development of renewables, particularly offshore wind. How would you see new initiatives? What new initiatives would you be developing or how would you cope with renewables going forward? How would you fund them? How would you open up? How does your organisation see renewables going forward?

Stephen Kelly: I do not think we were necessarily critical over renewables. I think that what we were flagging was that policy cost. Some of those associated with renewables are adding significantly to the



HOUSE OF COMMONS

bills, and there needs to be some control on that as a first phase. UK Government have begun that process and the Department here are following. What we have always heard is there is short-term pain for long-term gain. I am sure the Committee has heard that comment used many times. We are asking: when we will begin to see that real gain? I think there is some evidence beginning to emerge in the last year that renewables are suppressing some of the wholesale costs. The fear really was that this drive towards a 40% target would come with a massive bill associated with it, certainly a massive bill for reinforcement of the grid and for support of those schemes across a 20-year lifecycle.

Our view on the renewable side of it is that the consumer who needs the energy should be benefitting first. By that we mean people like Bombardier, and I am sure Cecil will go through some of the investments they have had to make at this point. If there is to be any type of support for renewables, and at the end of the day that money comes only from consumers and not from Government themselves, that support should be directed to the people to reduce their own bills first. For instance, a factory getting support to put solar on its roof or an anaerobic digester nearby getting support with quicker planning, quicker decisions, and better decisions from the network operator in terms of connection, and so on.

Rather than focusing purely on having renewables to spill electricity out into the grid and to the general populace, the general customer base, those incentives should be focused on the people who have really high bills and need to reduce those bills, because you get much more bang for your buck when you do that. If you are able to reduce the manufacturer's overhead while at the same time decarbonising our electricity generation, then you get the jobs and the wealth creation as well as meeting the decarbonisation, ambition. For us that is where the focus should be. Cecil, do you want to talk about some of the investments you have had to make?

Cecil McBurney: Picking up from what Stephen said there on renewables, with the energy strategy we have been working on over the last seven or eight years—and that ranges right from the early days of just trying to turn things off, putting inverter controls in, all the conservation things that others have talked about—we realised that we still needed to deal with the element of security of supply and price from the grid. That took us down a road of looking at a number of renewable solutions that we could embed within our own factories. After a lot of investigation we ended up coming up with three projects. We started all three, and we got all three over the line. One is the solar panels that if you fly into the Belfast City Airport you can see in the roof. That is the largest in Ireland, I think, or was when we put it on, of around 3.6 megawatts. We are hopefully this Christmas finishing off on putting in our biogas engines, and that is across four sites and ranges from 500 kilowatt engines right up to 2 megawatt engines. Hopefully at the end of 2017 we will be going live with the waste energy, which will supply electricity on to



HOUSE OF COMMONS

our main Queen's Island site in Belfast here. That is the added benefit of taking landfill and reducing those levels for the population within Northern Ireland.

When we get all three projects done it will give us nearly 70% off grid capability to supply our factories, and on top of that then that gives us security of supply, because we have a number of different projects here that are giving us supply. On top of that, because we have capability of spill we are looking at the issue of the on-site unit reductions, and we are working with SONI and NIE on that. On top of that then, to further complement the whole thing, we are working with a consortium, including the universities, on energy storage, which then will give us even further security of supply in the years to come. That is the next element of what we are looking at.

Stephen Kelly: Can I just add to that? That gives you an example of one of our largest and most strategic manufacturers, but also one of our largest energy users, having to invest huge amounts of, sometimes money, certainly amount of time, in order to get to a place where they have prices that allow them to be competitive within their own business, and then as a result competitive in the world as well. The challenge for the rest of the consumers left behind is that the cost of particularly grid and other elements that Bombardier will be avoiding, because they are generating their own energy, then need to be spilled across the rest of the customer base.

Q564 **Dr Alasdair McDonnell:** How do the solar panels price? Can you calculate a price of that vis-à-vis the general price?

Cecil McBurney: They are embedded in the system and what we have always worked on is that you still have to pay a same-equivalent price, but what you are taking out is all your transmission and distribution costs, because it is embedded within your own private wire system. That is where we see the savings.

Q565 **Dr Alasdair McDonnell:** Is it cheaper?

Cecil McBurney: It is cheaper.

Stephen Kelly: Just to bring some clarity to that, roughly in and around half of the bill is the actual power that you take from the Single Electricity Market. The rest of it is the cost of the grid and policy costs. What Bombardier is avoiding is all those policy and grid costs. As a rough example, it is about half the price of what they would have been able to buy it off the marketplace.

Q566 **Dr Alasdair McDonnell:** What about the biogas or the waste from waste energy?

Cecil McBurney: They are all embedded within our system. It is a similar concept. They are all done through developers where we have good purchase agreements. I think that is the other thing you have to



HOUSE OF COMMONS

look at. From the profile of how our energy has fluctuated over the last 10 to 12 years you see a big trend of how eight years of that was a steady increase well above inflation, then we had the drop, and now we are going to start to see the increase again. For any business plan to predict their budgets and their future plans it is a big element cost there that we have no control over.

Q567 Dr Alasdair McDonnell: Is there a case there in all of this for other large-scale users to create their own generation rather than depend on all the variables?

Stephen Kelly: Absolutely. Those that have the capability, the space, and the capital to be able to invest in this type of approach that Bombardier has made should absolutely do that. It will confirm their price for a longer period of time so you will not have those spikes and troughs. It will ensure that they have that supply going forward. More particularly, it will ensure they have lower bills for a longer period of time. Sadly, not every customer is in the position where they can do that, which is why we need the rest of the market so the people that are left behind can enjoy prices that are competitive within a European context in the first instance, or ultimately, but certainly competitive within the island.

Q568 Danny Kinahan: Stephen and Cecil, thank you very much. Running through the model in your letter, it talks about reducing, but when it gets to avoiding it says "avoiding unnecessary policy and incentive costs". Some you have alluded to already, but what other things should we be either working on at Westminster or this side of the water?

Stephen Kelly: There is a policy cost added to bills here in Northern Ireland that on the face of it looks like a very small amount of money, but the signal that that sends is kind of important to us. NISEP is a scheme that collects roughly about £9 million per year. 80% of that money is then distributed to support home energy efficiency, so domestic energy efficiency, but 80% of the cost of that is collected from the business consumer. For us that is one small amount of money, but that demonstrates a bigger problem that exists. We think the tariff should be cost reflective, so the people who use the tariff, or use particular wires or schemes within the policy area—that the costs are attributed back to the customers directly, or as close as possible.

The Department and the regulator here decided they want to remove it. In fact, they confirmed two years ago they were removing NISEP. But as we sit today, NISEP is going to continue for an additional year. Those are costs that in our view would be much better served in the Department of Communities, for instance, in terms of its housing responsibility and so on. That is one little example where the wider business electricity bill payer is supporting other things that are not necessarily within the electricity area.

There are other policy areas in terms of renewables where we think there should be a sharper focus on the people who need to consume the energy



HOUSE OF COMMONS

rather than just a general price across. We look at the tail a lot of times on what makes up the bill. There are a lot of very anonymous lines and numbers in there, and as an individual number it may be a fraction of a fraction, but when you add all those fractions together it makes up an enormous amount of money. In many ways it is like looking at an old TV; it is made up of thousands of little dots. It is not until all those little dots are added together that you get the full picture. For us, we would like to see some of those little dots and the picture become more pleasant for the customer.

Q569 Danny Kinahan: We almost need to know what those little dots are, but understood. At Westminster one of my concerns has been we are not working well across the Irish Sea with how we can do things better. Everything is focusing north and south. Is there anything east and west we should be doing better?

Stephen Kelly: I think it was last summer, the summer of 2015, that there was this sudden stop of renewables, and that was a decision taken by DECC in London. It came as a bit of a surprise from a customer's perspective, and certainly I know Bombardier were in the middle of bringing together some of those projects that Cecil has outlined at this point in time. That sudden stop created issues in itself. I think that there is a feeling that the communication between DECC at the time, obviously now no longer, and the local departments here perhaps could have been a little better. Certainly there were letters going forward and back looking for some clarity, given the particular circumstances that we have here. This is hopefully something that will not be repeated.

I know it was a big shock for the renewables industry, but it was also a big shock for consumers and customers as well, who in fact in some cases had invested lots of money at that point in order to bring schemes forward. Then those schemes were either lost or pushed into the long grass, and some of them are still in the system waiting to wash through. I think that communication piece is really important. What the future of the support for renewables looks like on a UK basis will have a profound impact in Northern Ireland. There are schemes in the UK, whether it is the feed-in tariff or contracts for difference, and there is no clarity for the renewables industry here and, as a result, for customers. We need some clarity pretty quickly on what the future support for renewables will be in Northern Ireland.

I know your previous contributor, Dr Dobbin, spoke about the EMAG report that we contributed to. We do not believe that there has been a response to the EMAG report at this point either. We would be keen to see what that would look like and what the future of support mechanisms may well be, because there may be opportunities for companies other than Bombardier to go with their own energy independent approach that will reduce their bill and make them more sustainable.

Q570 Danny Kinahan: Do you have a feeling on CfD, whether we should be part of it?



Stephen Kelly: I think all the evidence that has been produced to date would show that it would have a very detrimental effect in Northern Ireland. Part of the challenge is that we have an interconnector between County Antrim and south-west Scotland. Our understanding is that that road basically has a very small roundabout at the end of it, and once we get power here we cannot get the same amount of power back across. Whether we can take some of the renewable energy generated here and pass it through to the GB consumer I think is being limited by that constraint at the Scottish side.

Q571 **Lady Hermon:** Again, a very interesting account from the manufacturing side and valuable input into our inquiry. Could you say a little bit more about your organisation? How large is it and what is your membership? I will not explain why I am asking the question; I will just keep it for the next question.

Stephen Kelly: We represent 550 companies as a direct membership. That represents about 10% of all the manufacturers in Northern Ireland. Those range from the very largest such as Bombardier and others, down to the small printer, baker, and businesses across the Province.

Q572 **Lady Hermon:** Is there a membership fee? 10% of all manufacturers seems rather small.

Stephen Kelly: Not really, no, but we are limited in our own resources. We would love 20%, Lady Hermon, absolutely. I might even get a pay rise. That would be very useful.

Q573 **Lady Hermon:** Yes. But there is a membership fee you have to pay?

Stephen Kelly: There is a membership fee, yes. For the Committee's benefit, we were born out of a decision by the Direct Rule Ministers at the time that they wished to apply industrial rates on to manufacturing properties. From that a campaign was born that resulted—once the Assembly got up and running in 2007, the then Finance Minister, Peter Robinson, drew a halt in terms of where those rates bills were going to, and since then they have been capped at 30%. The organisation then evolved into a campaign around the cost of doing business.

When we survey members and ask them about the issues that are most of concern to them energy is the third largest input cost. It is a big issue for them, but they are also interested in rates, labour issues, and a raft of other areas. What I can tell you is that for manufacturing as a whole in Northern Ireland there is about 85,000 people directly employed, but when you add the indirect and the supported jobs it takes it to 217,000, or a different description of that is one in four jobs in Northern Ireland depend upon a manufacturing wage. When we look at the manufacturing population itself, 1% of our companies are large companies, so that is more than 250 employees, but they account for half of all the employment and half of the entire turnover. So these very large manufacturers are critically important, not just in what they do in terms



HOUSE OF COMMONS

of the electricity grid but they are critically important for the rest of that manufacturing base that we have across Northern Ireland.

Bombardier's supply chain stretches from the north-west to North Down and everywhere in between, and they are very valuable, not just for the direct jobs that they provide, but the rest of the jobs that are there. I think it is incumbent on us all to ensure that they have an environment that they believe is a competitive one for them to build the brilliant product that they build.

Q574 Lady Hermon: Of course. The supplementary question there is about your membership west of the Bann. The previous witness explained to us that there were gaps in the grid in the north and the west, in other words west of the Bann the grid was insufficient for those who wanted to expand. Cookstown was mentioned and County Tyrone, that in fact they could not be joined on to the grid. Do you have members west of the Bann saying that to you and feeding that back to you?

Stephen Kelly: Not as bluntly as that, but what we do have, just in terms of the manufacturer population, manufacturing represents about 4% of Belfast's economy but when you get to Mid Ulster, Armagh, Banbridge, Craigavon, and Mid and East Antrim, it is more than half of their economy. Manufacturing is a provincial contributor, much bigger than it is in Belfast. A lot of our members absolutely would be in the west of the Bann. A lot of our members would complain about their prices. A lot of our members also complain about the lack of availability of power on the grid, whether they wish to expand their premises or whether they wish to be participants in the marketplace through AGUs or DSUs, aggregate and generator units or demand-side units. They cannot get those connections and they cannot get the opportunity to export to the grid. On many occasions people have had to pay massive bills in order to improve the grid in their local area so that they can improve their manufacturing facilities. I am aware of one company who spent in the region of £2 million in order to get a connection.

Q575 Lady Hermon: Are you allowed to name them?

Stephen Kelly: I would need to ask them first.

Lady Hermon: That is all right. We would not want to spoil your working relationship.

Stephen Kelly: Yes. Certainly they have gone down a road of increasing the size of their factory, and with it employment, but that required an energy demand as well. But the grid was so saturated in that area, partly because of the amount of industry in the area but also because of the amount of small distributed generators, in terms of small wind turbines and other schemes, that the grid becomes so congested and confused that it took a massive investment from the company itself just to connect and plug in that factory extension.

Q576 Lady Hermon: I know that in your written submission the Utility



HOUSE OF COMMONS

Regulator comes in for a bit of criticism. Do you think the Utility Regulator is not doing enough for smaller manufacturers?

Stephen Kelly: We certainly think it could be doing more, absolutely. To be fair to the Utility Regulator, it has done some brilliant work, particularly around price controls for NIE in the last RP5, and it is about to begin RP6. That took in the region of about £270 million less from what NIE had been asking for to what they were given in the end. We think that is an excellent piece of work. We would encourage that much more often.

However, when it gets to areas such as how well the generators are remunerated, we think there is much more work that could be done. For instance, the last available report from the regulators north and south on profitability within the generating sector relates to 2013, I believe. That showed an £864 million profit within the generating market on the island. We have been asking for an update of that report. We now have two years' worth of report missing, and we are hopeful that we will get those reports this side of Christmas. However, £864 million is roughly a margin of 31%. I do not think there is a manufacturer in Northern Ireland, or indeed in the UK, that would not love a margin of 31%.

Q577 **Lady Hermon:** I see Cecil is shaking his head now about that.

Cecil McBurney: We are trying to get there, but we will never get there.

Stephen Kelly: It showed a net margin of 12% across those generators. We are not objecting to profit. We are in business, we represent businesses; profit is a very positive thing. It allows you to invest and allows you to pay people more, and so on. However, we think that that profit should be a reasonable profit, and £864 million profit income for us is not a number that we think is long-term sustainable.

Q578 **Lady Hermon:** You have just said and confirmed that you want the Utility Regulator to do more and to be more active, but you also have said in your written submission to us that you want the budget to the Utility Regulator cut or reduced.

Stephen Kelly: Not reduced, but the Utility Regulator essentially took about a 12% increase in terms of its budget last year, and that has continued on this year. This is at a time where everyone has been cutting back. Certainly we do accept that there is a large body of work that they are doing in terms of redesigning the market, the I-SEM project, and there are price controls and others. We think that the resources should be better used rather than going and getting more money. There are areas of work that I am sure the Utility Regulator will defend and say that it is very valuable that they do. However, we would like a focus on ensuring that the prices are as low as they possibly can be, and if they are to have resources of £7 million, now £8 million per year, that should be focused purely on driving down those bills not just for business but also for domestic consumers.



HOUSE OF COMMONS

Q579 **Lady Hermon:** Last question, and it is unrelated with that I think. Your comment was very interesting about your surprise on the joint letter from the First and the Deputy First Minister here in Northern Ireland to the new Prime Minister, to Theresa May. You give the impression that in fact you are very surprised that energy costs were mentioned in that letter. Did you subsequently follow that up and ask for clarification from the First and Deputy First Minister, and if so what did they say?

Stephen Kelly: We asked before that letter went—the morning of 24 June we were in contact with people within the energy industry, whether that be regulators or others—what does this decision mean for energy? The assurance that we all got back was, “It changes nothing. Everything is going to be the same”.

Q580 **Lady Hermon:** Which morning was this, sorry?

Stephen Kelly: The morning that the vote came out.

Lady Hermon: All right, 24 June. The day after the referendum.

Stephen Kelly: Yes, the morning that the result was known. We were assured that there were no issues. We had all been happily working on that assumption since.

Q581 **Lady Hermon:** Who gave you those assurances?

Stephen Kelly: Right across the industry, people that operate within the industry, regulators or others. It was a surprise that energy was one of the areas of concern that was flagged up. We are still waiting for real clarify on what those concerns are. Certainly from a consumer’s point of view we believe that we are starting to see some of the benefit of the whole island single market. We are beginning to see some of the benefit of the renewables depressing some of the costs in there. If there is anything that is going to change that dynamic then we need early sight of what that potentially is.

Q582 **Lady Hermon:** Yes. Just to come back to my question, you have again repeated you are surprised that that was included in the joint letter. Did you seek clarification on behalf of your members?

Stephen Kelly: We have not written to the First and Deputy First Minister, no, but we have been speaking to people, departmental officials, and Members of this House and elsewhere since then.

Q583 **Lady Hermon:** They have given you what reassurance?

Stephen Kelly: That is all everyone is feeding off at the moment, reassurance. We do not have any firm or concrete evidence to say nothing is changing, or the issues that may be emerging and what those issues are. We have been given no clarity on that.

Q584 **Lady Hermon:** Have you sought an opportunity to meet with the new Secretary of State for Northern Ireland to put these points to him?



HOUSE OF COMMONS

Stephen Kelly: We met with the new Secretary of State only last week on Thursday. We are facilitating visits by him and his colleagues around Northern Ireland at the moment to meet with manufacturers. The first one was on Thursday of last week in the construction sector.

Q585 **Lady Hermon:** That was in Cookstown?

Stephen Kelly: In Cookstown at the Keystone Group. There is a further one on 27 October, another one again at the beginning of November, and then I believe they have also met with the food and drink manufacturers as well.

Lady Hermon: That is very good. That is very encouraging. Thank you, that is very good.

Q586 **Ian Paisley:** Stephen, were you pleasantly surprised you were in the letter?

Stephen Kelly: Pleasantly surprised? I think if there were issues or problems then we are very glad that people are raising those, absolutely.

Q587 **Ian Paisley:** It is just the inference of what you are saying is that really you should not have been mentioned in the letter.

Stephen Kelly: No, quite the opposite. I think when we asked for clarity post referendum, "Were there any issues relating to energy?" people in the industry were saying there were not, and then to see it in the letter was a surprise on that basis. If there are problems and issues then we are delighted that the Executive might be trying to address those, absolutely.

Q588 **Ian Paisley:** I could just see a situation arising where if you had not been mentioned someone would have been sitting here grumbling that no one cared enough and forgot about them, forgot about the sector.

Stephen Kelly: In terms of the energy price?

Ian Paisley: In terms of yourself.

Stephen Kelly: No, I am not following you.

Q589 **Ian Paisley:** I just got the sense that you were grumbling that you were mentioned in a letter. Here you have a government actually trying to raise issues which are front and centre stage, and it is almost a complaint to get that.

Stephen Kelly: No, the surprise was when we asked people in the industry and regulators, "Does the UK's decision to leave the EU have any implications?" They said no. So the surprise was it was now raised as an issue. If it is an issue that the Executive is dealing with, then we are very pleased about it, absolutely. I think the issue was not necessarily about costs in that letter, but the issue was around the fact that there are challenges around our all-Ireland market, and if those are resolved and



HOUSE OF COMMONS

we see the benefit from that, we will be shouting it from the rooftops, absolutely.

Q590 Ian Paisley: The evidence we have been given is that large manufacturers, large electricity users in Northern Ireland pay 60% higher tariffs than the EU-15 median, and small to medium users have a price differential of about 40%. Startling figures and ones that we all know, to our cost, have ultimately cost jobs, particularly in my own constituency. This is a question for both of you, Stephen and Cecil. If those prices were reduced, do you believe that more manufacturing would come back to Northern Ireland and that owners of large manufacturing companies already here would invest more money into Northern Ireland and manufacturing jobs?

Cecil McBurney: I think you have to look at it in the overall context. Energy is one of the big elements, but there are a number of other things that also drive costs within business, whether it is transport, where you are placed within the global economy. But anything that can be done in any of those elements has the potential of bringing more jobs back, because you become more competitive. As long as we can drive competitiveness then we have the opportunity to retain the work, but also try to bring new work in, which then in its own right brings further investment.

Stephen Kelly: Just to confirm, I have a quote here from Wayne Culbertson who was the CO of Michelin in the UK on their decision to close the plant here. He says, "Our energy bill in Northern Ireland last year was £9 million. It has been an Achilles heel for us". If ever there was a clear and stark message for not just regulators but industry and policymakers, then that is it. That is a very sore blow for Ballymena but also a very sore blow for the whole of Northern Ireland.

Back to my earlier point about 1% of our firms account for half of all employment and half of all turnover, we need more of these people, not less of these people. As an organisation, we want to see the most competitive region in Europe in which to start, sustain and grow a manufacturing business. That is going to become even more important as we exit the EU and as we try to be more outward looking in terms of other marketplaces around the world. Competitiveness is where the battle is going to be.

Q591 Ian Paisley: I agree with every single word of that. The issue, however—and I think Cecil maybe alluded to it more in his answer—is that if we could get to the point where we reduced the electricity prices, it is not the silver bullet. It would help, but there is no guarantee that more jobs would be created. We are hoping it would, I certainly hope that it would, but it is not a guarantee. Is that right?

Stephen Kelly: Absolutely. The reality for a lot of firms is, though, particularly those international firms that are part of groups, they compete—



Ian Paisley: Internally.

Stephen Kelly: —internally for capital, for new production lines, for the new product that may be rolling out in 2020 or 2021. If that firm takes a 20-year view on the cost of locating that in Northern Ireland as opposed to elsewhere, energy bills are a big element across that period. If those bills were reduced by 20%, 40%, or elsewhere, that makes that calculation a lot more favourable in our behalf. This sits inside a number of other tools that we need in our toolbox, whether those be change to the terms of corporation tax, policies on industrial rates, or policies on labour and other cost areas. The energy piece is one tool in that entire piece.

Q592 **Ian Paisley:** Let us look at steps in how we could reduce energy prices. You mentioned, quite rightly, that in the Republic of Ireland prices for manufacturing consumers have been skewed in a particular way. However, the consequence of that has been that domestic consumers have had to bite the bullet and they are charged slightly more. It is not the most popular thing to argue for. I can put my hand up and say I have argued for it, and I am quite happy to argue that if we want to have jobs, domestic consumers pay more. It is not the most popular thing to say. But selling that message to the public, especially in an austerity regime and in a situation where domestic consumers here already have it tough, do you accept that for us to argue for something similar to the Republic of Ireland in terms of skewing of prices to the benefit of the manufacturer is going to be a tough deal to sell?

Stephen Kelly: Yes, is the short answer. The argument is that we have some of the most unfortunate fuel poverty statistics here. Our argument is that you do not lift anyone out of fuel poverty quicker than by giving them a job. Equally, you do not put people in fuel poverty quicker than those losing their job, and certainly the people in Michelin and Ballymena know that more than most. So, yes, it is a difficult conversation. I think the moment is right. We have seen wholesale gas prices at an historic low in many respects. That is driven because a lot of our prices are defined by the gas price. That has driven prices down. The evidence that the Utility Regulator publishes regularly shows that our consumers here are paying less than a European average, less than in GB, and in the Republic of Ireland, and elsewhere. So there is an opportunity in that regard.

We also think that there are other areas that could be addressed that would bring bills down for everyone. Having a wholesale market, which for people like Cecil and others is about 50% of their bill, having a wholesale market that is very efficient but also does not overly award generators, is a very positive thing to do. We think that allocating those costs, as you say, in a more cost-reflective way would bring prices down for business consumers in particular. It will not be popular, absolutely not. I accept that. Is it something that we should be done? Other places have clearly defined that as being a very valuable thing to do, whether that be across the border, in Germany. Even in GB they have decided to



support key industries, steel and others, to ensure that they have competitive prices so that the jobs can be sustained.

Q593 Tom Blenkinsop: This is pretty interesting evidence. There is one piece that you came across with that I found quite interesting: before you get to the bigger policy decisions there are the small, intricate pieces that could be changed now, for example transmission costs. Can you give us a bit more information about how much the average consumer pays in transmission costs, and the manufacturer pays in transmission costs, compared to the generator?

Stephen Kelly: I don't have that detail with me today. I promise I will happily dig that out and share it across. Some of those costs are attributed on a per kilowatt basis, and some of it on a per kilowatt hour basis. We have just asked the question in that paper: is the model that is being used the most appropriate model, and what would happen if, as in GB for instance, some of those charges on per kilowatt or on per kilowatt hour basis—but what would that mean in terms of how bills were constructed here? We may well find that it is a positive benefit but we may well find that it is a negative benefit. Our view is that maybe we should look at it at least and find out if that is something that we should pursue.

The wider question, I suppose, is: what sort of economy do we want here? Apparently manufacturing in Northern Ireland is of the view that we want an economy that is very competitive, very productive, an economy that can take those great products made by great people and sell them at markets at home and abroad. In order to get there they need the conditions to be provided for them to ensure that they can take on and win those markets. Where we sit right now, the energy price is a massive anchor on that ability.

Q594 Tom Blenkinsop: Your evidence is, at point 37, "Why do generators only pay 25% transmission charges?" Is that renewable generators as well as—

Stephen Kelly: Yes. It is something that we uncovered as part of the EMAG report that was mentioned, that in GB generator power stations would pay more of the network costs than they pay here. We have asked again for more evidence and clarity on that, but why is that the case, particularly if some of these—

Q595 Tom Blenkinsop: Is that something you could do policy-wise quite quickly and change?

Stephen Kelly: Absolutely, yes. It brings the bill for domestic consumers down as well as bills for business consumers. Those are the types of things that we have asked regulators and others to look at. Obviously they are involved in some very major projects around I-SEM, price controls and others, so those little finer detailed pieces sometimes are lost in that body of work.



HOUSE OF COMMONS

Q596 Tom Blenkinsop: One thing I have also noticed in comparison to Great Britain is where Northern Ireland is now coming across or looking to the future in a potential capacity issue for energy provision. The lack of under 50 megawatt generator provision in Great Britain is a proliferation of waste-to-power megawatt power plants going ahead. I know in my area there is about three or four have been built in the last few years. You said that generator start-up costs—although you say you do not have any direct evidence but you are hearing that a thermal generator in SEM is up to 10 times the cost of the equivalent in Great Britain.

Stephen Kelly: Yes. That was some evidence that was presented to the group from people within the industry itself, that some of the big generators that we have here, the big power stations, are inefficient. They take a long time to start up, they take a long time to cool down for that matter, and with that a lot of the costs are increased. So there is a lot of wastage of energy and fuel, whereas a lot of the plant in GB switch on a lot quicker but also they are encouraged to switch on a lot quicker. On some occasions, we may have inherited it. "This is a method of working that we have done, we have always done, and we are going to continue to do that". Certainly we would hope that a redesign of the generating market on the island would encourage past behaviours to disappear and for new behaviours to emerge that would mean that the start up of those big thermal generators is much more efficient and, with it, reducing costs.

Q597 Tom Blenkinsop: Northern Ireland is more exposed to the necessity of interconnection. You give some evidence about how the North-South Interconnector in a Brexit scenario, with tariffs on imported energy to the EU, could create complications for Northern Ireland potentially in terms of costs, and put businesses out of business. What do you think an intermediate solution would be? Would it be more interconnectors to Britain within the internal UK market? Would it be self-sufficient generation with under 50 megawatt power stations? Would it be demand management, or other management investment, so you precede the problem by basically making the Northern Ireland grid a smart grid as soon as possible? What do you think the solutions are to that intermediate problem if there is a tariff on energy coming in?

Stephen Kelly: I think the first thing is to avoid the tariff, because we absolutely need an interconnection with the south. They have a lot of generators down there. We are approaching a period where—

Q598 Tom Blenkinsop: But what would be plan B if that is not the case?

Stephen Kelly: What is plan B? For us it has always been about ensuring that any new, additional generators will always be small or otherwise, really feed the consumer's interest, first and foremost. That is, if there is a renewable generation, that that concentrates on the people who want the power first, and whatever is left over can spill out to the grid. When it comes to demand-side stuff, Cecil mentioned some of the work that Bombardier is doing. We know of dozens of companies across Northern



HOUSE OF COMMONS

Ireland that have back-up generators, for instance, that have the ability to switch off and to generate their own power to avoid those big peaks and avoid big, expensive power stations needing to be switched on. They are finding difficulty in getting export connections in particular to the grid, so that needs to be resolved, and I think the Utility Regulator in the near future is planning to do some work to allow that process to be freer in some respects.

In terms of interconnection with GB, absolutely. The entire European model for energy was to be one of much greater interconnection so that if there is cheaper power in the south of France then that can make its way to the north of Scotland, for instance. We would love prices from Liechtenstein, which is sitting at roughly about a tenth of the prices we pay here. Whatever they are doing well there, we would love a piece of that, please.

The interconnection pieces are critical, absolutely. We are big supporters of a second North-South Interconnector and the plans to get that over the line. That is not necessarily because of the impact it will have on price, because we think from our perspective that will be minimal, but it will free up the circuit and allow for greater transmission of energy around the network that we have, that hopefully will help with some of the difficulties in areas that are under constraint and stress, whether that be to allow people to connect quicker, cheaper and so on. It will allow the debate in Northern Ireland on energy policy to move specifically from, "We need an interconnector. We need an interconnector. We need an interconnector", to the issue that impacts people most, which is the price that people pay.

Q599 Tom Blenkinsop: What really interests me as well is the industrial solutions to the problems. Bombardier has grasped the nettle and has become, in effect, an internal generator of its own energy to take off the triad peaks. Do you think industry will move that way and think, "We do not need the grid. We will just deal with each other and generate our energy, and I will be your customer and you can be mine"?

Cecil McBurney: The market is not as open as that. It would be a nice way to be. But certainly—and I think Stephen has already said it—one of the challenges here is the peaks that we see that drive up that instant price with DSU and all the rest of it. If we could free that market up more, certainly that would be one of the things that could ease that initial spike, which then brings the overall cost down.

Q600 Tom Blenkinsop: You would welcome any sort of legislative or regulatory change that would allow that to happen?

Stephen Kelly: Yes. We would love more opportunities for customers to trade in the marketplace and to allow policies, systems, whatever, to allow that to happen. Years ago there used to be two guys on the telephone ringing 24 customers in Northern Ireland to say, "Would you mind switching off for an hour this afternoon? We are looking like we are



HOUSE OF COMMONS

going to get close to our peak". Those two guys rung around and refrigeration companies would have switched off their fridges for an hour, the shipyard might have switched off the big, massive fans they have in the roof, and so on, and they were rewarded back by the marketplace for participating in that.

Everything now seems to be much more complex. There are massive systems in place that two guys used to do on the telephone years ago, but the principle remains the same. If there are people with big, heavy loads there that could use that load to assist the grid but also use that load to share some of the load to bring their own price down and be rewarded for that, then that is a very good thing to do, absolutely.

Q601 Gavin Robinson: Stephen, not years ago. There are still two guys sitting in an office in my constituency in Dundonald who do it for their customers. They do it as a business where they manage it exactly and do so very successfully. Each individual aspect of evidence you have given today sounds plausible in itself. When you put it all together, it sounds a bit confused, if you don't mind me saying. How much fear do you project for manufacturers when big guys like Bombardier, but not to focus on Bombardier, come out of the grid? The more they are encouraged to do it, how much greater does that mean the demand for energy will be among your remaining members, and the costs, and the pressure that puts them under?

Stephen Kelly: The costs that Bombardier and others that generate their own avoid have to be smeared across the rest of the customer base, absolutely. Those are largely the fixed costs in terms of the grid, and the administrative infrastructure around all of that. We encourage people to take control of their own energy prices and their own energy efficiency. Energy efficiency also has the same impact as energy independence.

Gavin Robinson: You will find that piece will come first, before energy—

Stephen Kelly: Absolutely, you heard that from Cecil. They exhausted all the low-hanging fruit in many respects. You are right, not everyone has the capability or the capital to take on what Bombardier do, so what is left behind is people with gradually increasing bills. Large users are very valuable to the grid and not just from a pricing point of view but also technically, in terms of ensuring that—

Q602 Gavin Robinson: Is that not a huge danger for your remaining members, that they are left with the greater burden of cost?

Stephen Kelly: It is a danger, absolutely.

Q603 Gavin Robinson: What advice do you give? Do Manufacturing NI say, "Do get energy self-sufficiency, but please be careful about this"?

Stephen Kelly: We encourage energy self-sufficiency. It needs to be on a business-by-business basis that they take those decisions. We hope that regulators and others would recognise that the fact that Bombardier



HOUSE OF COMMONS

and others become energy independent is real evidence that the policies that are being pursued at the moment are discouraging people from taking power from the grid and driving them to either being efficient or independent. We would hope that they would take action in ensuring that, in price controls, they do not pay more than they absolutely necessarily have to, and when it comes to the generating side that they can reduce the cost of operating that market and, for us, the profitability that generators enjoy in that market.

We would hope that it sends a signal that this is a bigger problem than sometimes people perceive it to be and that the entire focus in policy is not just solely on decarbonisation and on security of supply, but also on that price side. We are beginning to see some evidence of that. For instance, I mentioned earlier the NISEP programme and the Department decided it was going to change what it is doing, but it is still here at the moment. The decision was taken not to proceed with the alternative because it would have added extra cost to business. I think that is a very positive decision that our Minister here has taken and the Department has taken, because it is pure recognition that we do not need to be adding to the burden, we need to be removing the burden. If that is a signal about what the future direction of energy policy will be in Northern Ireland, then that is to be welcomed.

Q604 Gavin Robinson: You mentioned the figures in RP5 and the aspiration that NIE wanted. You said they got 270 million less. It was 825 million they asked for, agreed investment, and 459 they got, so, about 370. Is there not a danger, though, that when they do not get to invest as much as they want that means that connection costs are greater, that the infrastructural change big business needs for grid attachment just simply is not going to be there? Rather than saying the Utility Regulator did a great job in lowering their aspirations, would it not be better to say the Utility Regulator and you guys should be saying, "We want RP6, not only to do what you feel it needs to do but this bit extra, spread over 40 years, which will have a significant impact for companies west of the Bann, companies that have grid infrastructural difficulties and companies that need those connections"? Would that not be a better way of doing it than saying, "Great, they got half less than they asked for"? Your individual companies are left picking up the tab for the connections.

Stephen Kelly: Not necessarily, because that RP5 process was a proper price control process where NIE present their plans to the regulator and their evidence alongside that. The regulator took a view on that. NIE did not like that view and took it to the competition commission and then started two years of documents, over 1,000 documents going forward and back, and there was no justification found by the Competition and Markets Authority to justify some of those big spends that NIE were proposing.

Q605 Gavin Robinson: I am not saying they were justified. I am saying is it not the time now for RP6, for you guys to be saying, "You can go a little



HOUSE OF COMMONS

more than that, but in doing so we want you to do X, Y and Z for large industry in Northern Ireland”?

Stephen Kelly: I was coming to that point. We are still going through that process. In fact, we are asking for the regulator to confirm that all the money that NIE were given is actually being invested in the grid, and we have some concerns about whether they have the ability to get all that money spent, despite asking for so much more of it. For us, it sounds a note of caution that it is in the interests of NIE to put as much capital into the ground. They get paid for doing that, it goes on to their back and the annual return on the regulatory asset base that is there. Those investments need to be investments that are well justified and well reasoned. We trust the regulator that they are making the right technical and cost considerations when it comes to that, but it is up to NIE to justify whether those are the right investments and at the right price as well. We have worked with NIE on their current plans for the current price control. We have not taken a view on what they have submitted. We have their big, thick document sitting in offices and cars all over the country. The regulator will come to a view in the new year and we will make our view known at that point.

There are elements within that plan that we would have concerns about and there are elements we would absolutely support. The ability for people to do more demand-side stuff would be something that would be a very positive thing. We will take this in the round. It is not just simply, “There is £400 million, take it down to £200 million”, but NIE need to be able to justify that, and we have our own analysis that will support the regulator’s view and NIE’s view when it comes to it.

Q606 **Gavin Robinson:** I think that is useful clarification. You were talking about profits within the generator market. Do you have the figures that you were referring to there for the Committee? What are they based on?

Stephen Kelly: Yes. Those are an analysis of all the accounts of the generators across the island that have legally been presented to the utility regulators, north and south. The last analysis of it was for the year 2013; 2014 and now 2015 are overdue. It breaks it down by total and by technology as well, and that report is readily available.

Q607 **Gavin Robinson:** If you look at the companies’ posted profits, one thing that you did not mention—and maybe it is because it is not there, in fairness to you—was that Scottish Renewables completely skews the entire profitability of all the companies. They posted 68% profit last year, whereas the majority of regulators were sitting between the 3% and 4% bracket. When you get the average of 12%, it is because Scottish Renewables are so far ahead with 68%.

Stephen Kelly: My understanding from the analysis that the regulators do is that it is on each individual wind farm and not necessarily on the one big company.

Q608 **Gavin Robinson:** The company postings of their profit: 68% for Scottish



HOUSE OF COMMONS

Renewables, and the rest are all around between 3% and 4%, and that is because they are regulated.

Stephen Kelly: No. For instance, if we take one line here, coal, which SSE do not have any coal on the island, or maybe they do, actually. No, I do not believe that they do. Their operating margin was 29% and the net margin of 20%.

Q609 **Gavin Robinson:** Yes, and this is the issue with the regulators regulating the domestic market. That is a bigger kicker.

Stephen Kelly: In what way?

Gavin Robinson: That the Utility Regulator is regulating the profitability and the—

Stephen Kelly: Yes, so you are talking about the supply company side rather than the generator?

Gavin Robinson: The generators—that is the kicker.

Stephen Kelly: Yes, the supply companies are saying that their margins are in or around 3% and 4%, absolutely. But the generator margins are much higher than that.

Q610 **Gavin Robinson:** 68% for Scottish Renewables. Let me just ask you, because I understand the larger issue about the Single Electricity Market and the political desire from the First and Deputy First Minister, from Prime Minister, to make sure we do not suffer. Your concern seems to be when you say there is a glut of generation in the Republic of Ireland, “that import tariffs could be of detriment to our companies”, if we were importing into the Republic of Ireland, it would be of detriment to our companies. Why does that make sense? Surely if they have a glut of generation, what you mean if there was an export tariff, if we were paying to get that energy, then there would be a detriment. That is something we control, as opposed to the European Union. So, I do not understand if they are charging us to send it in whenever they have the energy to send us. Just explain where you are coming from.

Stephen Kelly: We do not know, is the answer. This is something that we have only uncovered yesterday, which was that there are tariffs to import energy into the EU, for instance. We are flagging the question about: what does the future look like? Is it a case of there should be a tariff on the export side? Is it the case that we can avoid those tariffs completely? Is it the case that tariffs are not appropriate or are not going to be applied? We do not know. These are the kind of issues that are emerging to us. I am flagging them to the Committee that it might be useful to get some clarity around that, on customers’ and consumers’ interests.

Q611 **Dr Alasdair McDonnell:** A couple of points, and just picking up on the last point you made there that there are tariffs to import energy into the EU. Does that affect oil or gas?



HOUSE OF COMMONS

Stephen Kelly: I understand it affects all energy sources, so oil, gas and electricity, for that matter.

Q612 **Dr Alasdair McDonnell:** You have no idea what the level of that tariff is?

Stephen Kelly: We do not know. This is something that has just emerged in the last 24 hours.

Q613 **Dr Alasdair McDonnell:** Thank you. We will follow up. The other point that crossed my mind is you talked earlier about connection charges and the problem with getting a line, perhaps if a manufacturing business has set up and it needs half a mile of cable or whatever. The implication I took was that sometimes not only was it expensive, it was difficult. I can recall one situation—and you may not mention names but I will take a risk and mention a name—where Quinns at a time had a massive battle over getting electricity supply on the northern side. Is there any regulation—and I just throw this out for colleagues as much as for you—against somebody sitting in Strabane taking a supply from Lifford?

Stephen Kelly: I am sure there probably is. I do not think it is as easy as running out a big, long extension cable and plugging it into a domestic property or whatever, but—

Q614 **Dr Alasdair McDonnell:** What I am looking at is, if it were the case that that was possible, it might very well be profitable for somebody. You are telling us that prices are 22% higher in the north. I still can't get my head around—maybe there is a bit missing—the fact that the one big North-South Interconnector is vital, because I would have thought that three or four little interconnectors or 20 or 30 little interconnectors might help balance things out, but maybe the 20 or 30 would be more expensive than one big one. It just crosses my mind. You have no information on that?

Stephen Kelly: I think it would be highly unlikely that that could happen. The grid here is owned by a commercial entity, Northern Ireland Electricity. It is a regulated company because it is a monopoly, obviously. It is their hardware and there are codes for how that grid operates, how people can connect to it, for very good safety reasons, never mind any commercial reasons. I would find it extraordinary if there was a wrinkle in their code that allows me, for instance, who lives half a mile from the border, to run a big extension cable to Donegal. I will be doing it this afternoon.

Q615 **Dr Alasdair McDonnell:** I do know that Quinn in cement and glass was able to tap into southern electricity, albeit at times it was not quite clear whether his factories were on the northern side or the southern side.

Stephen Kelly: The border runs right through that factory.

Dr Alasdair McDonnell: He was able to take advantage of that. I just wonder if there are any other manufacturers who could. That is just off



HOUSE OF COMMONS

the top of my head.

Chair: I think we have covered everything. It has been a very useful session. Thank you very much indeed.