House of Commons

Northern Ireland Affairs Committee

Oral evidence: Electricity sector in Northern Ireland: Follow-up, HC 888

Wednesday 14 March 2018

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Watch the meeting

Members present: Dr Andrew Murrison; Mr Gregory Campbell; Mr Robert Goodwill; Lady Hermon; Kate Hoey; Jack Lopresti; Nigel Mills; Jim Shannon.

Questions 1 - 60

Witness

I: Ian Luney, President, AES UK & Ireland; Robin McCormick, General Manager, SONI Ltd; Jenny Pyper, Chief Executive, The Utility Regulator; Jo Aston, Director of Wholesale Markets, The Utility Regulator.

II: Cllr Paul Reid, Mayor, Mid and East Antrim Borough Council; Anne Donaghy, Chief Executive, Mid and East Antrim Borough Council; Louise Kennedy, Head of Policy, Mid and East Antrim Borough Council.

Written evidence from witnesses:

- AES UK & Ireland
- Mid and East Antim Borough Council

Examination of witnesses

Witnesses: Ian Luney, Robin McCormick, Jenny Pyper and Jo Aston.

Q1 **Chair:** Good morning, everyone. Thank you so much for coming today. This is quite an important inquiry that bears directly upon people's lives in Northern Ireland. The Committee thought it would be appropriate, therefore, to update the inquiry that we conducted and was published in April last year. What I would like you to do, panellists, if you would, is introduce yourselves. In a very short period, perhaps just give us your thoughts on how things have changed since we published our report in April, which I am sure you have read.

Robin McCormick: My name is Robin McCormick. I am the general manager of SONI. SONI is the System Operator of Northern Ireland. We have two roles: we operate the transmission system, the motorway section of the electricity system, to make sure that there is sufficient generation available to meet the demand; and we also run the all-island electricity market, the wholesale arrangements for electricity that have existed on the island since 2007.

The major change that has occurred since the last time we spoke has been the first steps of introducing the integrated single electricity market, a new market arrangement, which has come about after quite a lot of discussion and debate as to the design. It also has been pushed for by the increasing amount of renewables we have on the system, which mean that we have to operate in a completely different way.

Ian Luney: Good morning, Committee. My name is Ian Luney; I am the AES president for UK and Ireland. AES is a global energy company that operates across 15 countries, primarily in North, South and Central America, Europe and Asia. In Northern Ireland, AES owns two separate businesses, AES Ballylumford in Larne and AES Kilroot Power in Carrickfergus. In Northern Ireland we employ 258 people as direct employees and a further 120 full-time term contractors. We are the largest independent power producer in Northern Ireland and the largest independent power producer in the island of Ireland, so we are not a vertically integrated utility. We have no retail presence; we have no interest in distribution or transmission; our interest is solely generation. We have introduced innovative technology to the market in terms of energy storage, playing a key role in the Northern Ireland and all-Ireland energy system since 1992 when we first invested in Northern Ireland.

Our interest in this inquiry, Chair, and what has changed since the findings of the last Committee, is around security of supply to Northern Ireland. That was a material concern, both then in 2017, and right through to 2021-22, when the second north-south interconnector was due to come into place. We now find ourselves on the back of this first I-SEM capacity auction, where it has been explained that three of our units have not cleared in that auction and have been given a very clear exit signal from the market. That is going to have a massive impact on the people we employ and a very strong impact on the communities in which we operate. We believe it is not in the interests of Northern Ireland, in terms of security of supply and economic growth.

Jenny Pyper: Good morning and thank you for the opportunity to come to this further follow-up inquiry. Jo Aston is my director of wholesale markets. I am Jenny Pyper; I am chief executive of the Utility Regulator. The Committee will be aware that the Utility Regulator is a non-ministerial government department and that we have a clear set of specific statutory duties, which are laid out for us in legislation. Overall, our role is about protecting both the short and the long-term interests of consumers in Northern Ireland.

We last gave evidence to this Committee back in September 2016 and, as you indicated, Chairman, a lot has changed in the energy arena since then. We have seen very significant continued growth in renewables to the point where, last year, some 37% of Northern Ireland's electricity needs were met by renewable generation. We have seen very significant extension of the gas network, both in progress in the west of Northern Ireland and in East Down. We have seen changes in prices and in choices for consumers. As Robin McCormick indicated, the energy landscape continues to be a dynamic one.

But the most important change is the fact that we have now essentially started the first stage of the new all-island wholesale electricity market. That is really the focus of this Committee's follow-up inquiry. In terms of our role and how we feel we need to respond to the changes, I would want to make clear to the Committee that, fundamentally, our role as the Utility Regulator means that we will take no chances with security of supply. We will always strive to drive down prices for all consumers and seek to maximise the sustainability of our energy system. This new I-SEM market is really designed to make best use of generation across the island. Critically, the first stage of that market, the capacity auction that has been referred to, is designed for the first time to ensure that consumers will only be paying for the electricity capacity that they need and not for a costly significant surplus.

As Robin has indicated, that auction has secured sufficient generation for Northern Ireland from Northern Ireland, so there are significant savings and significant efficiencies there to be made. We are on the brink of that new market becoming fully operational. The first signals have been sent: significant change, significant focus for us on security of supply, but also on ensuring consumers only pay the costs that they really need to pay, particularly for capacity. I recognise you have a lot to cover today and we are here to assist in your deliberations, along with the other panel members.

Q2 **Chair:** Thank you, Jenny and Jo. I will treat you, if I may, as one. Is that okay? I am going to kick off with the first question. When the Committee took evidence at the end of 2016 and beginning of 2017, it became very clear that there was a sense in the industry that the strategic energy framework that will expire at the end of this decade was already in need of updating. Since then, we have continued not to have an Executive, whose responsibility this would be. Can I press you, particularly the industry? It is probably unreasonable to ask the regulator to comment on this, but I would certainly be interested in the industry's views on what the absence of an updated strategic energy framework means, given the highly dynamic situation than you have already described, particularly reflecting on things such as renewables and the Kilroot Advancion storage array, which seems to me to be very exciting in respect of Northern Ireland's significant renewables capability. What does it mean, bluntly, not having Ministers who can make decisions in terms of Northern Ireland's energy future, at this crucial point in time?

Robin McCormick: The strategic energy framework was a key policy document that set out a road map to 2020. One of the key pillars of that was the 40% renewables target. That was supported by the renewable obligation certificate scheme, which was pulled not that long ago. That has driven the market in a particular way, so Northern Ireland has benefited from that scheme hugely, in that a significant amount of renewables have been connected to the system, mainly onshore wind. It has created challenges for the system operator to manage wind on a small-island system.

We would now claim to be world-leading at operating on a small-island system with lots of wind. We have a percentage figure that we talk about. We started off with the maximum allowable amount of wind on the system as 50% so, at any point in time, you could have 50% of your demand from wind resources. We have now increased that to 65% so, if the maximum demand in Northern Ireland is something like 1,660 megawatts, 65% represents over 1,000 megawatts being supplied from wind. In the winter period, I think there were four days when the wind was below 10 megawatts. The introduction of renewables on to our system under that strategic framework has blossomed and transformed the system in Northern Ireland.

That has all had a benefit for consumers, so the wholesale price has reduced as more renewables have entered the system. We have not had to run more expensive conventional plant; we have been able to run the renewable plant. We have tried to maximise the amount of that and tried not to have to curtail it or turn it down because of technical issues. That is changing the dynamic of the system.

Looking forward, if we do not have a policy, we do not clearly know what direction the electricity sector is going to take. It will be left purely to the market to determine what those technologies might look like. We have completed an exercise of connecting just over 1,200 megawatts of wind. There are 200 megawatts of solar in Northern Ireland, believe it or not, which contribute to the mix of renewables. We have 10 megawatts of battery at Kilroot power station as well, so there is a mix of technologies there. It would be good to have an Executive in place to develop that policy framework further. We always believed that the 2020 figure was not an endgame, but was a signpost to the future. From an energy sector perspective, we need to have more clarity around where we think we want to go, because that shapes a lot of commercial activity and our ability to plan.

Q3 **Chair:** In the absence of Ministers who can make decisions on these matters, the decisions will not be made, because this is a big deal and it is unfair to expect civil servants to craft an energy strategy. If we enter a period of a lack of Ministers, perhaps comparable to the previous period of direct rule, that is to say running into several years, what implication would that have for the energy sector in Northern Ireland?

Robin McCormick: You make a good point about there not being a Minister and not being an Executive. Therefore, that curtails decisions; it curtails decisions on the policy piece. There is a good example of the north-south interconnector getting planning approval, and that was done by the Permanent Secretary in the Department for Infrastructure. That was a positive piece of decision-making by the local administration.

In terms of what could happen, it really is down to market forces. We have examples of both solar and wind generation projects that are coming to connect to the system without the support mechanisms, but there are lots of other technologies—batteries, electric vehicles—and lots of potential to continue to transform the electricity sector, and there is no policy in place for that. That ultimately means that there is no coherent plan for the future.

Ian Luney: Chair, can I just pick up on your question and some of the points that Robin McCormick has made? The characteristics of the market that Robin has explained around renewables and the penetration that we see first hand, day in day out, is not just in Northern Ireland and the island of Ireland, but across all our markets we are seeing exactly the same trends. There is high-impact penetration of renewables, increasingly at lower cost without subsidy. We are seeing a lot of digitalisation and new disruptive players come into the markets, and we are seeing everything move towards a decarbonised energy sector. That is in every market in which we operate. Northern Ireland and Ireland are no different.

Those markets and those trends will continue irrespective of what policymakers and Governments do. That is happening now and has been happening for the past few years. With the absence of an Executive and a Minister in the Department for the Economy, it is really crucial that we get them in place as soon as we can, so we can get our hands around this collectively and understand what it is Northern Ireland needs to address the issues that this new market is going to create around new players. We do not need these old baseload CCGT plants. In the longer term, we need something that is much more flexible with new technologies such as energy storage and others that are out there. The energy sector is moving on rapidly and we need to have accountability and decision-makers in place so that we address it, to fuel economic government for Northern Ireland and bring together industrial strategy and energy strategy. It is really critical.

With those trends that we have seen over the past two years, our assets have continued to operate very strongly in that market, particularly the coal units. Renewable penetration is significant and is to be welcomed, but our coal units, over the past three years, have operated 85% of the time, over 6,000 hours a year on average, each unit, and serving 22% of Northern Ireland's energy needs. As we think about renewables, they are welcome but they are not the solution in its entirety. We still need conventional generation to be available to ensure 24/7 affordable reliable power.

Q4 **Jim Shannon:** Thank you, ladies and gentlemen. It is nice to see you here. I have a couple of questions for each of you, starting with you, Ian, in relation to the derogation of 23 May. It is a very complex issue, the energy market, and it is sometimes very hard to understand for us back home and for the Committee. Perhaps you can tell us a wee bit about where you are on 23 May, where you go after that and what other arrangements there are for the energy market. The other thing that is sometimes forgotten when things happen is that you have 270 workers. What has happened to them?

Ian Luney: Before I delve into the depths of that answer, I could set a bit of context that might be useful for the Committee and for some of the other answers you may hear from the panel, in terms of how I-SEM is going to work. That might be important. If you will indulge me, Chair, I will try to do it reasonably quickly.

The I-SEM market that Robin McCormick alluded to is similar in structure to the current market arrangements, in terms of the wholesale market. That wholesale market has three sectors. It has an energy market, in which generators receive a payment for the energy they deliver, and that accounts for about 70% of the raw market size and costs the customers face, in terms of the wholesale market. There is a separate ancillary service market; this is for services such as reactive power and reserve, and that is a much smaller chunk of the market, about 5%. The capacity market, which we have been talking about today, is 25% of that overall wholesale market size. The capacity market is vital for our generator participants, because that is a market that we go to, to try to secure the balance of money we need to cover our fixed costs and be a viable business, able to deliver that security of supply and affordable energy that Northern Ireland customers need.

This first T-1 auction, this first annual auction in the I-SEM, has had very disappointing results. We had 13 units participating in that auction process. Most of them cleared. One old thermal unit at Ballylumford did not clear, but that was unsurprising to us, because it is expensive, both in terms of capacity cost and in terms of energy cost. At Kilroot, the two coal units did not clear. This was devastating news for our people, as you have alluded to, Mr Shannon. We have been given very clear exit signals, as Ms Pyper alluded to at the start of the hearing. Those exit signals have been given and we are having to respond to those exit signals.

There were two drivers behind why we did not clear the Kilroot coal units. First, the capacity requirement that was set by the System Operator of Northern Ireland was lower than many in the industry expected. Also, in this capacity period, 2018-19, our two coal units required statutory maintenance. These are periods of maintenance that every generator on the island needs to undertake periodically, typically every three to four years, to ensure that they have insurance to operate and can run, and also ensure that we are acting as a prudent operator and comply with all health and safety legislation.

Unfortunately, the timing of the new I-SEM coincided with both Kilroot units needing the statutory outages. It is very expensive, double-digit millions of pounds, to do this work. It is vital to do it, so that we can be available in this 2018-19 period, and we had to recover that in this capacity auction period, according to the market rules. That meant we were less competitive than we otherwise would be. Combined with this lower capacity requirement, it meant that we did not clear the coal units. Exit signals have been provided and we have been taking action to manage the business accordingly, to ensure that we can continue to deliver on the contracts we have secured in this capacity auction and that we have a viable business going forward for AES Kilroot Power.

There are a significant number of people affected: 120 people at Kilroot are at risk, 30 people at Ballylumford are at risk and a further 120 contractors are at risk of losing their jobs on 23 May or just shortly afterwards.

Q5 **Jim Shannon:** Can I have a quick follow-on to that in relation to AES's interests? You still have an appetite to be an energy provider in Northern Ireland.

Ian Luney: Absolutely. As I said at the start, we invested in Northern Ireland in 1992, pre the Good Friday agreement. It was our first overseas investment. Since 1992, we have been active in Northern Ireland. It is a good place to do business. AES corporately sees the benefit of the strength of its institutions. It sees the strength of the currency. It ticks all the boxes from a corporate strategy perspective. We acquired Ballylumford in 2010, again demonstrating our commitment to Northern Ireland. Over the past three or four years, despite significant headwinds in terms of commodity prices, we have invested significantly in both Ballylumford and Kilroot. We remain committed to Northern Ireland.

It is fair to say, on the back of these auction results, they have created significant uncertainty not least for our people, but also for me and the leadership team in terms of how we manage the business going forward. That has taken up a lot of our time. As we think about how we then manage our strategic sights going forward, we have a plan to look at wind power in Kilroot. It was due to take effect in 2022, when Kilroot was due to close, but these results have brought forward that closure to 2018, so we are having to recalibrate.

Q6 **Jim Shannon:** For SONI and you, Robin, have you as a group done a technical assessment and are you confident that you will have the capacity on 24 May and as far as 2020 and 2021? That is the first question. Secondly, I was not on the Committee but, given the evidence that the Committee had last year in relation to it, when it was confirmed there would be a security of supply, what we are all asking ourselves all of a sudden is what has changed now that there is no security of supply. Maybe you will tell us that there is. Just give us your thoughts, please.

Robin McCormick: I will cover the security of supply issue first. The generation capacity statement is a document that we produce every year. We have been producing it for years, and it sets out our view of the future level of generation that is required. We put it out graphically and show how much generation there is compared to that standard. The capacity auction was introduced by the regulators and they have determined that, in this capacity mechanism, there would only be payments for generators that were required to meet that standard. There would be no payments for generators above that standard. That was the purpose of the auction.

The auction was a competitive process. Everybody knew what the numbers were and how many megawatts were required in Northern Ireland. The results are as we have seen. On the basis that we have enough generation cleared in the auction to meet the generation capacity standard, I am confident that we can meet that security of supply standard for the auction period.

There are a lot of different bits to that portfolio. We have the assurance that there is a lot of wind, which is not accounted for in the capacity auction outcome. It is additional to that. If I go back to what I said before, over November, December and January this year, there were only four days when the wind contribution was less than 10 megawatts. There are increasingly fewer days when we are solely relying on the generation that cleared in the auction. Those are important things to remember. We are transforming the power system. We are working in a completely different way. We have introduced a new mechanism for capacity and that capacity lines up with a standard that has been set. Consumers will benefit from the implementation of that.

Q7 **Jim Shannon:** On 24 May, after the derogation, you are very confident there will not be a meltdown in the energy market. Looking forward towards 2020 and 2021, you will be quite confident that you can deliver that.

Robin McCormick: Let us take a step back from that. The capacity auction results were announced in late January. The grid code is the document that all participants on the transmission network abide by. It is the rulebook that explains how you connect to the system, how you interact with the system operator for outages and all sorts of different contingencies. It also stipulates that there should be a 36-month notice period given of withdrawing your plant from the system. That is to ensure that we do things in an orderly manner. If a generator wants to have a long outage, it needs to give the system operator notice, maybe years in advance, so that it can fit that outage into the jigsaw of the many outages that are required on the network for transmission plant new projects, windfarm connections, et cetera. The grid code is a really important document.

We are faced with a situation here where Kilroot has requested a derogation from that three-year period to close its plant on 23 May. When a derogation request lands with the regulator, it has to make sure that it is a valid request. It will then ask the system operator to make an assessment. We have to do quite a bit of analysis to understand if there are any system factors that would impact on a decision to give an early derogation from the grid code.

We are in the process of doing that; that has not been completed. Once that process has been completed, we will put a derogation assessment report to the regulator, and then the regulator has to make an assessment. It may have to come back to us for further information. It has to take some soundings for different aspects of it. Ultimately, it will make a decision as to whether that derogation request is going to be granted or whether it is going to be granted with some conditions. Lots of different things could happen. We are faced with a situation where we are talking about the closure of two units out of sequence of a process that everybody in the industry understands.

Jenny Pyper: Chairman, there are a couple of things I failed to capture in relation to the first point. You said you did not think the regulator had a role in relation to wider strategic policy and what was driving it.

Chair: I did not want to embarrass you, since my point was a political one around the presence of Ministers.

Jenny Pyper: Maybe I can, in a sentence or two, say something about that. I have a little experience, as I was probably the primary author of the 2010 strategic energy framework in a previous life. That document set out a vision, but it was intended to be reviewed after round about five years. I am clear in relation to my role, because my duties are set out in statute and they mirror those of the department. I am clear that the direction of travel we are on is one that was set and endorsed by Ministers in the Northern Ireland Executive.

I am clear of the remit that I have been given, because I am accountable to the Assembly and indeed to this place. I am clear that we are on a path to develop a more efficient, competitive electricity market, one that aligns with the best in Europe, one that involves an efficient, smart and reliable grid, and one that is focused primarily on delivering benefits for Northern Ireland businesses and consumers in relation to security of supply and price. While there are a lot of things that Ian and Robin have mentioned in terms of future policy direction around decarbonisation, battery storage, electric vehicles and so on, and Ministers will need to make those decisions, we still have a very clear direction about what we want for Northern Ireland plc.

I would totally agree with Ian's points, in terms of the importance of economic development and energy being interlinked, but I want to pick up on one or two of those points. I will ask Jo to come in with some of the numbers. It is important to remember that the purpose of the capacity auction was to protect consumers from very high prices by promoting competition between market participants. The existing all-island market, the existing wholesale market, has a capacity mechanism within it that has proved over time to be overly generous. That has been something that all generators on the island have benefited from, including AES. It has been described to me by some business representatives as "a nice little earner". It has been a top-up payment.

As Ian has said, it is not the main way in which generators make money in the market. They make most of their money, over 60%, through trading their electricity. The capacity payment is there essentially to make sure that there is sufficient capacity from conventional generation in particular to allow for those rare periods when we do not have sufficient wind on the system.

In the new market, it is no longer going to be a nice little earner. Companies will have to work for it. They will have to bid into the auction; if they are successful, they need to make that capacity available when it is needed by the system operator. If they fail to do that, they will be penalised. For the first time, there is a competitive dynamic in it. AES, as with all the players in that auction, made commercial decisions about which units were bid in and at what price. It is no surprise that the most expensive units were not successful and those units that were bid in at a lower price have been successful. That was a commercial decision made by experienced companies including AES, which had options about how much cost—and Ian has referred to the maintenance cost—was bid into the first of a series of auctions.

Robin has referred to the three-year plant closure process. The design and successful operation of energy markets depend on clearly defined rules and codes. The auctions and the capacity remuneration mechanism were designed with that three-year exit period in mind. There were options there for generators to spread their costs over what might have been a three-year period, even if they thought they might get an exit signal. There are commercial forces here and commercial decisions being made for the first time. I know Jo has one or two numbers she wants to make sure go on the record.

Q8 **Jim Shannon:** To come back on that one, I am not sure we are all totally convinced of the changes in the capacity market and the energy market itself. You said 60%; I understand it may be a wee bit more than that, 70%. We are worried as consumers in Northern Ireland. We are worried about the fact that the prices could rise. What control would you have over that? That is the question I am really keen to ask. I am not sure that I am totally convinced, if I could say that very respectfully to you.

Jenny Pyper: It is hard to know; you are absolutely right, because that aspect of the market has not yet started. That is the market that is due to start trading, and it is going to be very different from the existing market that we have. It is going to be a dynamic market with competitive forces in operation. I would like to come back to that, but I want to make sure that we correct some of the points that have been made in respect of your previous answer.

Q9 **Jim Shannon:** You also mentioned competition. Again, I am not convinced that the competition will be there to keep the energy prices down. Let us be honest: does that mean that Northern Ireland is more dependent on gas, for instance? We all know what happened two weeks ago on the mainland here. When the cold spell came in, guess what the gas companies did? "Let us just put an increase on to it". They had absolutely no compassion or understanding for the consumer. Again, I ask the question: where is the competition and will you be able to control it?

Jenny Pyper: There are useful points that I want to pick up on here, but I want to ensure that we get some of those key messages about the capacity mechanism. Then maybe we can come to the design of the market, the trading and the competition. One thought I would leave you with is that Northern Ireland and Northern Ireland consumers have suffered in the past from a lack of competition in the market, from long-term contracts that have proved to be extremely valuable and extremely lucrative for companies such as AES, which have been able to come in. I do not disagree, Ian: it is a good employer, which has built up capacity in Northern Ireland, but it has done it for commercial reasons. There is no philanthropy there; do not make any mistakes.

Those legacy contracts and the sort of market that there has been in the past are not going to attract new investment in energy, business or manufacturing. We need to have a best-in-class, modern, efficient, competitive market, and that is one that is going to be based on competition, not on stable nice little earners.

Jo Aston: Ian referred to the three revenue streams. You have the energy market, which is the larger part, the capacity mechanism and, in the current SEM, smaller ancillary services. The I-SEM is going to look very different, and the division is very different as well. The energy market is going to be much more prevalent, in terms of being about 75% of costs. We have taken £200 million off our capacity amount, so that is going to reduce to about 15%.

The ancillary services are all about trying to get more wind on to the system. Wind is cheaper. We are already paying a subsidy. We have already paid our ROCs for it. We want to get the value out of it. Those system services are about letting more wind on, and we have now increased from a 40% penetration level to a 65% penetration level. Robin can speak to the statistics, in terms of how much wind. Jenny referred to a third of our power being from wind last year. Again, the dynamic is changing. Capacity should be a top-up; it should not be a main earner for companies. They should be able to play in the market and most of their revenue should come from the energy market. If it does not, it speaks to the fact that they are not competitive in that main market.

If I speak to Northern Ireland in terms of Kilroot 1 and 2, for Kilroot in 2017 things are changing quite significantly. In 2017, Kilroot contributed about 10% of the overall energy for Northern Ireland. It was probably using about 30% of its overall capacity. These are called mid-merit plants. You have baseload plants that are cheaper and more efficient. They get on the system and on the bars nearly all the time. You then have mid-merit plants that are brought on depending on how cheap or otherwise they are at competing. We have a number of plants like that, which are not used to full capacity. Some of the Ballylumford plants are not used to full capacity. Kilroot is not used to full capacity and that is where we have the headroom. Then you also have peaking plants, and they are more expensive, but you should not need to use them very often. We have had to argue very hard to get a capacity mechanism and to get state aid approval, because energy markets should focus on the energy, for the larger part.

Another thing Ian said was in terms of having to bid in all the maintenance costs in one year. The rules have allowed older plant to bid them in, in one year. Why have we allowed that? Say a plant is behind a constraint and we really need it. The capacity mechanism acknowledges that in Northern Ireland it is absolutely imperative that we have sufficient capacity to meet all Northern Ireland's needs. We are aware that a lot of our plants are very old, so we allowed plants older than 40 years to bid in their maintenance costs in one year, but it was still a commercial choice. They did not have to do that. It was really their decision.

Lastly in terms of competition and the energy market, the big difference from the current SEM is that this is real-time-based. There are quite a lot of markets. There is a day-ahead market, an intra-day market and a balancing market. That allows wind to compete. It allows us to realise that, when wind is on the system, it takes the price down. In this new market as well, we have a demand side and a supplier side. Currently in the SEM the suppliers are takers, and you do not have that natural dynamic of supply and demand. We will have that in the new I-SEM market.

Ian Luney: I almost do not know where to start. There is so much to unpack there. I will be brief if I can. In reference to the power purchase agreements, AES's fleet of generation in Northern Ireland is primarily merchant and has been since 2010. There is a remaining PPA that the regulator has an opportunity to cancel with six months' notice, at any point in time. That PPA debate of 15 to 20 years ago is long past. We have been committed to the merchant market and securing our revenues to have a viable business on that basis since 2010.

In terms of our bids, of course we are acting in a commercial manner. The decision we face for the period of 2018-19 is this: we either have the ability to recover our fixed costs and have a viable business for 2018-19 and beyond, or else we cannot recover those fixed costs and we do not have a viable business. In our bidding, we had to go through an exemption process with the regulator and its expert consultants. It scrutinised all our forecasted revenue. It scrutinised on an open-book business all our costs. It was the regulator that came back and said, "This is the price you can bid up to". It was a cap. We would have bid lower, once that cap was established, if we had more revenue come through energy margin in the intervening period. It did not happen. In fact, commodities went against us from October to December 2018, and we had to bid at that cap to ensure that we could continue to operate this business for 2018-19 and beyond.

On the issue of spreading costs, if you are incurring double-digit-million costs as a standalone independent power producer, you have to recover those in that year. If you try to spread them over three years, you may not clear in a subsequent auction. If you have not cleared in that auction, you have no ability to recover those costs and your business is bankrupt. I as a director and other directors were not going to put AES, or our people, in that position. We were entirely focused on ensuring we had a viable business proposition going forward and that we could continue to deliver reliable, safe, affordable power for Northern Ireland, as we have done.

I do not recognise some of the figures that have been presented. In 2017, on our figures, we supplied over 17% of energy for Northern Ireland. 2017 was a very windy year and there were commodities at play, so we look back over the past three years to capture the trends. We have delivered 22% of Northern Ireland's energy, year on year, as an average over those years. We have continued to do so this year.

Looking at this year, you will be aware of significant events, for example the beast from the east. You will be aware of other events that have happened in the energy market, and we have continued to run, be it a high-wind day, be it a low-wind day, be it a high-gas-price day. We continued to operate 24/7. We are a baseload plant in the winter and certainly we are a mid-merit plant in the summer, when demand tends to ease off on windy days and we do not see as much dispatched. These units, in our view, are absolutely critical for Northern Ireland's supply to transition the market from 2018 to 2022. These units were due to close in 2022 or thereabouts, and we were making plans to repower the current site with innovative, new, flexible technology that we think the market needs. We were making prudent commercial decisions, which are absolutely essential to ensure Kilroot in particular could be there to serve the needs of Northern Ireland customers.

Jenny Pyper: I have just one comment. Ian has recognised the commercial dynamics that are in play here. Why would he not? The crucial thing for the regulator is whether the plants are needed, and the world has changed very considerably over the last couple of years, in terms of not just the quantity of renewables, but also the system operator's ability to take more and more wind on to the system. Older plant such as Kilroot 1 and 2 may have had those old certainties in the past. The world has changed. My question is: why should consumers pay, and pay a premium payment, for plant that is not needed? That is the crucial analysis that the system operator has done.

Ian Luney: Jo alluded to it; we have talked about it a lot. There are three elements to the wholesale market. Energy prices drive prices to customers. All our discussion at this Committee so far has been on the capacity market. There has been no discussion about the impact of the closure of Kilroot, for example, and other units that are exiting the Irish market, on the energy market.

Our assessment is that, if you take out the Kilroot coal units, given that they are baseload and mid-merit units, the generation that needs to replace them will be much more expensive. It will be these peaking units that are left. We think that is going to drive up energy prices. You may see a saving in the capacity market, which is about 20% to 25% of the market size, but that energy market drives cost to customers. We think those costs are going to go up, particularly for Northern Ireland, because the fleet of generation that is left without Kilroot is primarily made up of CCGTs and much more expensive open-cycle gas turbines, the Ballylumford B station units and demand-side units, which are the most expensive units on the island, in terms of their energy price.

Q10 **Lady Hermon:** It is very good of you all to come and it is very interesting evidence indeed, with conflicting accounts of how we have managed to get here. Mr Luney, can I ask a basic question? Was the Kilroot plant a loss-making plant?

Ian Luney: We have had solid financial performance year on year, since 1992 at Kilroot.

Lady Hermon: I just wanted that on the record.

Ian Luney: It has been a solid performer financially, because of the efforts of our people in terms of being available to run. That has been really strong, year on year, and we have taken appropriate hedging activities in this merchant market to ensure we had enough energy revenue. We have been a really prudent operator, year on year. The step change is this new capacity market and I-SEM, which is yet to be established. That is the step change. That is the existential threat to Kilroot that we are now trying to address.

Q11 **Lady Hermon:** You talked in a response earlier about the results of the first auction. Is there an auction every year?

Ian Luney: There is an auction every year between now and 2023.

Q12 **Lady Hermon:** This was the first year of the auction, and you said the results of the first auction were very disappointing indeed. Why was that? Was the AES bid far too high?

Ian Luney: Hopefully I have explained clearly why we had to bid the way we did. The other dynamic, as I alluded to earlier, was that the capacity requirement SONI required was lower than the industry expected. Those two dynamics meant that we were not competitive. We had a concern about that coming up to Christmas, and we took action to notify both the regulator and the system operator in terms of derogation.

Lady Hermon: Do you accept that your bid was too high?

Ian Luney: I would completely accept our bid was not competitive, for the reasons I have outlined.

Q13 **Lady Hermon:** You have explained that Kilroot was not a loss-making plant. This was the first auction. AES has the opportunity to come back next year and bid again but, instead of that, you have thrown all the toys out of the pram and you have announced a closure at very short notice indeed. You intend to close on 23 May. Am I right?

Ian Luney: On the back of the exit signals we have received from the market, we are asking for—

Q14 **Lady Hermon:** You do not think that is a bit premature.

Ian Luney: No, I absolutely do not think it is premature. We think it is essentially to ensure that AES Kilroot Power Ltd can exist going forward and continue to honour the capacity contracts we have in other units. As I have said, we have been a solid financial performer to date. Maybe I could frame it this way. The capacity revenue that both Jenny and Jo have alluded to has not been a nice little earner in this 2018-19 period for us. It was absolutely essential to ensure we covered our fixed costs. There was no premium.

Q15 **Lady Hermon:** What was your profit in Kilroot in recent years?

Ian Luney: Our profit margins at Kilroot have diminished, year on year, over the past three years. It is round about 5% or 10%.

Q16 **Kate Hoey:** How much is that in pounds?

Ian Luney: For Kilroot, the 2016-17 figures are not yet available publicly. If you will just bear with me, our profit in Kilroot was £9 million in 2016.

Q17 **Lady Hermon:** £9 million is a very healthy profit.

Ian Luney: Lady Hermon, could I just finish the point I was going to make? A lot has been made of how previously the capacity market was a nice little earner for generators. We completely accept that I-SEM is trying to ensure that does not happen. We followed a regulatory process with regulatory scrutiny to bid in the way we needed to bid to ensure we covered our fixed costs. There was no profit built into those figures, no premium and no risk adjustment. That was what we needed to have a viable business going forward. The outturn of not securing those contracts means 50% of our fixed costs are now not covered because we have no revenue from these capacity contracts. That is not sustainable after 23 May.

As a business, we have to take action to ensure that we can maintain the business going forward, and that is why we are making the very difficult decision in the 16-month period to follow that we cannot just hang on. We do not have the reserve to do it. We do not have the ability to do it and, in fact, we would be bankrupting the company if we tried to do it. As directors, we cannot do that.

Q18 **Lady Hermon:** Are you telling this Committee that you would be bankrupt if you delayed your decision about closing Kilroot until next year, when there is another auction?

Ian Luney: That is correct, absolutely. That is exactly the case.

Lady Hermon: I think the Utility Regulator wants to come in here. Jenny, go ahead.

Jenny Pyper: Your line of questioning is very interesting, Lady Hermon. AES overall has been a very successful company in Northern Ireland. As I have alluded to, the regulator wants to see successful companies in Northern Ireland. The regulator's job is to protect consumers, particularly in relation to price. It is quite instructive to look at the AES accounts and the dividends that have been paid over the years. You will see a very successful company in Northern Ireland.

Ian Luney: Chair, can I just make a comment on that, at this juncture, in terms of dividends? Please look at our accounts, Committee members.

Q19 **Lady Hermon:** What would we see?

Ian Luney: Please look at our accounts for 2014, 2015 and 2016. The accounts are not available for 2017. AES Kilroot has not paid any dividends over that period of time. Given the headwinds that we have seen in the market, in terms of commodity prices, given this change in the market dynamics that Jenny and Robin have both alluded to, it has become a much more difficult market. We are still committed to it.

We have not paid dividends but, in that same period, we have invested in Ballylumford power station to provide a B station that addresses security of supply need, which the system operator and the regulator have identified. We have invested in Kilroot in terms of low-NOx technology in the same period as not making any dividends, and we have invested on a merchant basis, with no subsidy from customers, in grid-scale energy storage, the first of its type in Ireland and GB, driving this new market in terms of flexibility and addressing renewables. To this idea that we have been dividending out, those days are long gone.

Jenny Pyper: It is useful to look back beyond the last couple of years to see how the company has performed in the market. Ian talks about new investment in Northern Ireland to ensure security of supply. I am very mindful of the criticism that was levied against the regulator when we offered AES a local reserve contract to ensure that there was no risk to security of supply, when there were problems with the Moyle interconnector. That was something customers paid for; that was not a philanthropic gesture. Customers have paid for all the assets in Northern Ireland, and probably several times over. Now, that is important because we want to see good efficient generators, but the difficulties and challenges that Ian alludes to over the last couple of years suggest that perhaps this is plant coming to the end of its life, no longer efficient, no longer competitive, and we are trying to accelerate that process, for the benefit of consumers, by moving to a much more competitive market.

Lady Hermon, you mentioned the derogation. It is really quite important that we refer to a number of things here, because initially there was talk, and there has been talk since the auction was held, that Ballylumford and Kilroot would be closing immediately. That picture shifted to all of Kilroot closing immediately, and then the picture shifted such that AES would honour—and we are very glad to know this—the gas turbine contracts that were successful in the auction. They will not be closing; they were successful. The focus has been on Kilroot 1 and Kilroot 2, the over-40-year-old coal plant. We have seen a moving picture of what this might mean for AES, and we have as a regulator received a number of different derogation requests.

The one that we are focusing on and talking about is a derogation request for Kilroot 1 and Kilroot 2, the two coal units, seeking to close earlier than the three-year rules of the game. That is the issue that we are now working through with the system operator to assess. The assessment has already been done that Kilroot 1 and Kilroot 2 are not needed in the capacity auction. They are not needed to meet Northern Ireland's capacity needs in that first auction, as you very rightly point out. We are now looking at whether there could be any reason, over the three-year period that we as the system operator and the regulator would expect, as part of the rules of the plant closure process, not to allow Kilroot to close.

There is no decision right now; it has not been made. There is a lot of work to be done before we get to that decision, and we have a number of other derogation requests that have not yet crystallised as valid.

We are saying that there are commercial forces, with a company that has a diverse portfolio. Part of that portfolio has been successful. It is great to hear Ian talking about the opportunities. I have been an enthusiastic supporter, with Ian and with his predecessor, of the battery storage investment, but that is the investment we want to see. That is the investment we want to see for the future of Northern Ireland, not continuing with generation and continuing to have consumers pay for generation that is not needed any more in the market.

Q20 **Lady Hermon:** Could I just ask Ian what would happen, following on from what the Utility Regulator has just made quite clear, if AES is not granted a derogation?

Ian Luney: Could I come back to that, but give some clarity beforehand? You asked why we have taken these steps today. Jenny has very articulately explained that we have been given a very clear exit signal from the capacity market. A prudent operator, of course, is going to take action, given the materiality of the impact it has on our people, first and foremost, on the communities in which we operate—you will hear from Mid and East Antrim subsequently—and on the business. We have had to take steps to be ready for this derogation process. If the derogation comes back and says, "You can exit", we can move swiftly forward, with clarity and certainty for our people, to take the decisions we need to, to make sure we have a viable business going forward and deliver on our capacity contracts, across the portfolio.

If the derogation request is not granted and there is no other form of commercial arrangement, the business is in a very difficult position. We are very aware of the statutory duties of the regulator, in terms of ensuring a licensee can finance its activities. In the event that we are told we are not required in the capacity market—"We do not need your capacity"—by default it does not need our energy.

Lady Hermon: That is until the auction comes around again next year.

Ian Luney: On that basis, we have been given an exit signal and we are responding to that exit signal. If the argument is, "We need you and we are not going to offer some sort of alternative commercial arrangement to ensure you can recover your fixed costs and be a viable business", it speaks to us of market failure. You are saying the market has not delivered. "You have been given an exit signal but we cannot let you exit". On that basis, we think it would be a perverse outcome for a regulator to say to a participant or a licensee, "We cannot grant you the derogation, but you cannot finance your activities". That is just perverse and we think it is untenable. If that was the position that we ended up in, it would be a very difficult position for us. We would not be viable. It would put us in a position where we would be moving towards looking at legislation around insolvency and bankruptcy. I do not think that is in the interests of AES.

Q21 **Lady Hermon:** As a general company, which company are you telling us is going to be bankrupt?

Ian Luney: As I started with in my evidence, AES Ballylumford and AES Kilroot Power are two separate legal entities. They are set up as separate legal entities. Each business has to wash its face on its own merits. We have to secure enough revenue from the market to discharge all our liabilities, on a current and forward basis. AES Kilroot Power is the business that would be in distress if the regulator made a decision that we could not have our derogation, there was no other form of commercial arrangement, whatever that might look like, and we could not finance our activities. That would be wholly perverse. We believe it would send a very bad signal to the market in terms of regulatory uncertainty and regulatory risk.

Jenny Pyper: I do not agree that it would demonstrate regulatory failure or market failure at all, because the rules of the game are a three-year derogation. We are transitioning from one market to a new, more competitive market, and that derogation and plant closure process is part of the rules to facilitate that transition. It is described quite often as an orderly exit process. Therefore, for plants that do not want to play by those rules, which have been out there as part of the design and the arrangements for the market, that is their commercial choice. Ian is exercising a commercial choice but, from my perspective, it does not demonstrate market failure. They are the rules and they are what we are trying to work through, in order to make sure that we have a stable transition from one market to another.

It is causing pressures. It is causing difficult decisions to be made, and I recognise the human impact that Ian has talked about so articulately. As the regulator, I do not have a responsibility there. My responsibilities are for security of supply and to drive down costs, and that is what we are trying to do. If that means that some older, less efficient plants exit, there is nothing different in Northern Ireland from the rest of GB and from plants that have closed in Scotland. I think Eggborough closed, a coal-fired power station in Yorkshire, back in January, and announced that there would be 200 job losses there. That is what we are seeing, that change from the old technology to the new. Eggborough was competing in a contract for difference, an auction of a different type. It was unsuccessful and got the exit signal. This is what is happening now in markets. It is part of a shift and a change, and we are trying to facilitate that through the SEM and the I-SEM. It is painful for some companies.

Ian Luney: I have a very quick point, just to avoid any doubt. AES is entirely confirming with the regulatory rules around the derogation process. We are entirely doing that. We are not doing anything commercially outside that. We are following that process. Lady Hermon, your question was what would happen if the derogation was not granted and there was no other form of commercial arrangement. My answer is that it puts us in an exceptionally difficult position and potentially puts us in breach and me in breach of insolvency legislation, which we are very mindful of.

Q22 **Lady Hermon:** That is very interesting. You spoke about not getting a derogation or alternative commercial arrangement, so you are looking for an alternative commercial arrangement. Did I understand you correctly?

Ian Luney: In the Irish market, there is the Republic of Ireland and then there is Northern Ireland. Those markets have been brought together and there has been a common regulatory approach to both for over 11 years now. We are not the only units in this market to have not cleared. In the Dublin area, we know of other plants that have not cleared and they are in a similar process. They had to bid higher than the market price cap, they did not clear and they have gone through the derogation process.

We are aware that that generator has already got its answer in terms of derogation. We would very much welcome our derogation process to be expedited as far as it can. It has its answer. We understand it is in discussions with the CRU and the system operator in the Irish Republic around how to address that issue. The CRU and the equivalent of the Utility Regulator in the Republic have already published a paper in December outlining their concerns that these T-1 auctions, these annual auctions, are not aligned with this 36-month notice period under the grid code. It makes sense if you have a four-year auction, if you are delivering capacity four years away and you have not cleared. Of course then you can serve your 36 months, but these annual auctions have given rise to a lot of issues, not just for AES, but for other participants in the market.

The CRU paper sets out the need to ensure that, as Jenny alluded to, this transition from now to 2022 is orderly and is managed. As you go through that process, there is a tacit acknowledgement by the CRU that generator participants that are in that position can finance their activities. That is wholly sensible and makes it right from a market perspective. Markets, whatever sector you are in, do not expect participants to run at a loss and not be able to finance their activities.

Jenny Pyper: I just wanted to respond on the CRU document.

Chair: We are running short of time, so be quick.

Jenny Pyper: I am very conscious of that. The CRU document that was referred to and was published expressly says that there is an alignment with the plant closure process. That document, if you look at it—and I have looked at it in great detail—sets out a set of principles. I would not disagree with any of them. It repeats the plant closure process, which was published by the two system operators. I would not disagree with any of that. It does not say anything new, but it talks about the fact that in the Republic of Ireland there are some specific differences. It talks about demand growth around Dublin and about transmission constraints. Northern Ireland does not have demand growth and it does not have transmission constraints equivalent to the Republic of Ireland, so what CRU is talking about is whether or not there is anything that Irish customers and Irish customers alone should pay, above and beyond what the auction has delivered on an all-island basis. Northern Ireland consumers would not pay any of those costs; there would be no cross-subsidy. That is a very specific document to deal with a very specific set of circumstances that exists around Dublin, not equivalent to Northern Ireland.

Q23 **Mr Campbell:** Time obviously is at a premium. To be fair to the current and subsequent witnesses, I will keep my questions very brief, because we are running out of time very rapidly. On the issue of security of supply standards, inform me if I am correct. Is it the case that, at the moment, there are separate standards applicable to Northern Ireland and the Republic, and they will converge? At what point will that happen?

Robin McCormick: The capacity auction provided an opportunity for agreement to be reached on a common standard. The capacity auctions have been run on that basis, so the two regulators that sit together on the single electricity market committee that oversaw the auction process have determined the generation capacity standard that was to be applied to this auction process.

Q24 **Mr Campbell:** Are the security of supply standards still separate?

Robin McCormick: Jurisdictionally, they would be held separately. Together, they have agreed that this common generator capacity standard would be applied to the capacity auction.

Q25 **Mr Campbell:** That applied in relation to the current auction.

Robin McCormick: Yes.

Q26 **Mr Campbell:** Is it the case that there were any concerns arising from employees as a result of the outcome of the auction? Did anybody express concerns, in terms of employees of individual companies or people who may have been affected as a result of the auction?

Robin McCormick: The capacity auction has been formed out of a huge process of consultation with all the market participants. The capacity auction is not a surprise; it has been the subject of many meetings, many workshops, many papers and many responses to papers. There was no surprise in how the auction was set up, how it ran or what the arrangements were vis-à-vis Northern Ireland and vis-à-vis Dublin in terms of constrained areas, and ensuring that sufficient generation capacity was available in each of those constrained areas, as well as the island as a whole.

Ian Luney: From an AES perspective, we pride ourselves in communicating with our people and making sure, particularly in this I-SEM period, that people knew. Our people knew that the auction was going to be in December. They knew what the indicative results were and we briefed them immediately on the final results, because they were so material. We engaged with our important external stakeholders as well.

Mr Campbell, if you came on the Kilroot site today, our staff would say to you, "Look at this generation. It is working 24/7. Why is this asset moving to closure mode?" It is entirely because of this exit signal that has been given by the auction process and this idea that a megawatt is a megawatt. A megawatt that comes from a baseload mid-merit generator is the same as a megawatt coming from a demand-side unit, for example. We provide affordable energy compared to most on the island. We provide a range of ancillary services and we have provided innovative energy storage solutions. Our people, if you came to meet them—and you would be very welcome to come to the site to meet them—are very surprised by the outturn of this result.

Jenny Pyper: To respond to that, I have had representations from employees of AES. I am meeting with their trade unions and, I understand, possibly with your colleague Sammy Wilson. Another elected representative, Roy Beggs, has indicated a desire to come with him. It is really important that we hear from them as well and explain where we have been coming from and what we are trying to achieve, as the Utility Regulator. I would not disagree with anything that Ian has been saying about the importance of briefing and being transparent with employees about the potential issues, but I will also be very clear that we are working through a process and that process has not yet come to an end.

Q27 **Mr Campbell:** I have one question, Chairman, to SONI and Mr McCormick on constraints reports. I am not absolutely sure about this, but is it the case that they are published on a monthly basis on your website?

Robin McCormick: Yes, there is a process for updating our transmission constraint groups. That aims to inform people how the system is changing in terms of how it is operating. If you move from a position where you have only some wind generation on the system to a situation where you have a large or significant amount of wind generation, the way the system operates changes. We have had to introduce tools to help us understand exactly what is happening on the power system at any point in time. We have a stability assessment tool that we run in the system. It runs thousands of calculations and it is an online assessment, so we would use that and other analysis tools to monitor how the system is performing. They allow us to make changes to our transmission constraint group, how we run it, what the rules are, et cetera. That has resulted in changes over the last number of months that mean that Kilroot will only be run on the basis of the market bid price, as opposed to any internal Northern Ireland system issues. We have been able to identify that that is no longer required.

Q28 **Mr Campbell:** Over the past few months, from just before Christmas to last month, would it be the case that each month there would be an updated report?

Robin McCormick: Yes, there is a regular update.

Q29 **Mr Campbell:** That would be available on your website. Would there be a similar update then on the Republic's website? Is there any gap there?

Robin McCormick: They would have their own set of constraint groups and different rules for different parts of the network. Northern Ireland operates as a single constraint group, as evidenced by the capacity auction.

Q30 **Mr Campbell:** A member of the public would not have accessibility on the EirGrid website to something that we would not see on the SONI website, in terms of a constraint report.

Robin McCormick: They would have to look at both websites to get the full picture of how the all-island system operates.

Mr Campbell: What I mean is if there would be something that appeared in one that did not appear in the other. That is what I mean.

Robin McCormick: There may be some technical bits of information there, but the point is that anything that is there is a step forward from where we are at the moment and is a benefit to customers. If there is a change to a power station in Dublin, where the min gen has been reduced, it is a benefit, as we do not have the same level of constraint costs. They are additional costs for running the system. That would not be posted on the SONI website, but it is a specific thing for them.

Q31 **Mr Goodwill:** I have two very quick questions. We have heard about the advantages of the integrated market, the I-SEM. This is probably a question for Mr McCormick. Given the increased reliance on renewables and the larger geographical area that you are looking at, I can understand that, but could there be a situation where, because of increased demand in the Republic or capacity issues, the price for consumers in Northern Ireland could go up because of the integrated market?

Robin McCormick: You have pointed to basically the reason why the single electricity market was established in the first place. The single electricity market operates on an all-island basis. All the generators on the island play into that market. The wholesale price is the same whether you are in Dublin or in Dungannon. That is the purpose of it. The purpose of it is to provide downward pressure on prices across the island. We get the benefits of the scale. We get the benefits of the competition. We get the benefits of a combined attack on how we operate the system, with more and more renewables. That is what this is all about.

Q32 **Mr Goodwill:** There is no downside. Increased demand in the Republic could not have a knock-on effect to Ulster in pushing up prices. Mr Luney is sort of nodding a bit.

Ian Luney: No, I agree with Robin on the structure of the I-SEM. On your point specifically, if demand in Dublin goes up and is significant enough to affect the wholesale market price, that wholesale market price is applied to all, across the island of Ireland. If demand in Dublin booms, it is deemed to be all-island demand and that could affect prices for everybody on the island, if that happened.

What we have not seen and what we would like to understand is this. There has been very clear articulation of the savings of this first capacity auction for Northern Ireland, but nothing has been made available by the regulators or the system operators about, if you take out those units that have not cleared, what it does to energy costs, if anything. Maybe it does not move the needle at all. From our assessment and our modelling, which is only modelling, we think it is going to increase wholesale energy costs, but that is an assessment that we think should be done and made available to the public.

Jenny Pyper: All that can be done is modelling, because the energy market and the trading arrangements are not yet live and active. It is only when we see those markets happening—they are due to go live on 23 May; it is a date everyone has in their minds—that we see who bids in, who pays and what the prices are. That will take a while to work through. We are moving away from the old simple market, where it was very easy and transparent to see where prices were, because they came in a very straightforward price stack. We are moving now to a much more dynamic and complex market, with different time periods. There is a day-ahead market, an intra-day market and a balancing market. Therefore, there is lots of modelling going on in the Utility Regulator. Companies such as AES are doing it and the system operator is doing it, but that bit of the market is not live. The only bit that we can point to so far is the result of the capacity remuneration mechanism.

It is important to be clear on those issues about growing demand that you mentioned, because demand is growing in the Dublin area and there are transmissions constraints. To be very clear, if that means that additional investment is needed or something else needs to be offered to a very similar plant to AES's Kilroot plant in order to meet that demand as a result of the auction process, where it is related to network issues, constraint issues or growth in demand in the Dublin area, it will be paid for by Irish consumers alone. That will sit on top of the market as a result of this auction. As to what happens in terms of the main part of the market, the electricity trading arrangements, we have not seen the outworking of that.

One of the things we are keen to do in this auction is make sure that the plant that is really needed to meet capacity, to meet peak demand and to meet those emergency situations can be there, be delivered like that and be on, if it is needed. That will not be delivered from K1 and K2. It will be delivered by some of the other plant that Ian has. Ian is absolutely right; some of that might be more expensive, but the plan is that it is not on all the time. It is only needed, as Jo has said, to meet the peak, and the peak could be a very short period of time. It could be a matter of an hour or two hours in a year to meet peak demand. This is about getting the balance of generation.

Q33 **Mr Goodwill:** In just over a year's time, the UK is leaving the European Union. There may be a transitional period. Are there any Brexit-related trade implications to this cross-border trade in energy? Could it be subject to tariffs? Could it be subject to any other issues that either need to be resolved ahead of our exit or need to be an ongoing process? Have you looked at that in any detail?

Jenny Pyper: Absolutely, we have looked at it as the regulator and in fact Jo is part of our Brexit project group. She is going on after this attendance to be part of that project group. It is a big issue for all of us. It is an issue for manufacturers, for generators and for all of us in this market. Yes, the fact that we have a market that spans two jurisdictions and will span a member state and a non-member state post Brexit is a huge challenge.

Mr Goodwill: It will be interconnected to England and France as well.

Jenny Pyper: The design of the market is full integration and full interconnection. I wish I had a crystal ball here and I wish I had absolute guarantees, but I take great heart from the consistent message from the Government in the White Paper on Brexit, in terms of the commitment to the all-island market. The House of Lords Committee report on Brexit again confirmed that the I-SEM will benefit both Northern Ireland and the Republic of Ireland, in terms of energy security, decarbonisation and energy prices.

Most recently, the Prime Minister's statement on 2 March remarkably included a specific reference to continuation of the single electricity market across Ireland and Northern Ireland. That was a really significant statement, of all the things she could have chosen to talk about, to have the I-SEM in there. That specific, explicit recognition was really encouraging. Yes, we have something unique. Yes, we have something that is problematic, but there is a real commitment there from the Prime Minister to put in place arrangements that would allow its continuation. There are lots of potential threats and you could model lots of different scenarios, but I can see a very consistent position from the Government recognising and seeking to protect the I-SEM. I take a lot of heart from that, plus the fact that we are part of the machinery and feeding through into the negotiating process. I have spent a lot of time in Brussels. I have met with the taskforce 50 and I know how much support there is across Europe for this all-island market.

Ian Luney: This is only to give a participant perspective and an investor's perspective on Northern Ireland, the island of Ireland and Brexit. As we are an American company leading the way with FDI, back in 1992, we are very interested in where the Brexit debate will land. It is giving rise to uncertainties, naturally. We are actively monitoring where it is going and will continue to do so. For our part, as a US investor in Northern Ireland, as a player that is the largest independent power producer in Northern Ireland, wherever it goes in terms of a soft, hard Brexit or wherever, we will be there to provide the solutions that are required, with whatever fleet of generation we have left.

Q34 **Kate Hoey:** Mr Luney, just remind us who exactly made the decision of the contract. Who decided the contract?

Ian Luney: Who decided not to award the contract to us?

Kate Hoey: Yes, who actually did it?

Ian Luney: The auction process was run by the system operators, EirGrid and SONI. It was a computer algorithm that was programmed to work out the least cost of procuring the capacity across Ireland and Northern Ireland, so the outturn of that auction came out of the computer program, and was validated by the system operators and by the regulators. The decision was really one by the System Operator of Northern Ireland and EirGrid.

Q35 **Kate Hoey:** Was it a group of people, two or three people, who sat there, went through it on the computers and said, "Oh no, we are not going to give it to them"? People need to understand who made this decision.

Jo Aston: Perhaps I could pick that up in terms of how we got to having the computer algorithm. This started with the design of the capacity. There were 10 consultations, so you have a lot of expertise through consultations, in terms of developing the policy and what should be included. You have 10 workshops. You then have the TSOs, which are experts, looking through in terms of what volume of capacity is needed. The volume of capacity is stated. We have an auditor who goes through the process and checks everything. We also have a monitor who goes through the processes and stands over the TSOs to make sure that everything is run prudently, as it should be by the rules.

An answer is then churned out. It is a mathematical model. With that answer, provisional results are given to every market participant. Then the SEM committee required a monitor's or an auditor's report, and took a decision, reflecting on the provisional outcomes, that the provisional results were the final results.

Q36 **Kate Hoey:** Who was the final person to sign it off?

Jenny Pyper: It was the SEM committee, the all-island cross-jurisdictional body that was established both north and south, with statutory responsibilities. It is a statutory body.

Kate Hoey: There are no politicians on it.

Jenny Pyper: No, there are not. They are independent regulators. There are three members of the Utility Regulator board, the three commissioners in the Irish regulator, and then an independent and a deputy independent member. That structure and that regulator for the all-island wholesale bit of the market was put in place in 2007.

Q37 **Kate Hoey:** Mr Luney, do you have confidence in that whole procedure? Has it been done right?

Ian Luney: As I articulated earlier on, in terms of the capacity auction, we have concerns that a megawatt being treated as a megawatt, no matter what your technology, has led to a result that is suboptimal for Northern Ireland in terms of security of supply. We have a concern around that. We have no concerns about the integrity of the process, given that it has been audited and it has been signed off by the SEM committee. Just because a process has worked well, it does not mean that the answer is the right answer.

Q38 **Kate Hoey:** AES said that the result was a strong signal to AES to exit the market. Was that just because you were very upset about it?

Ian Luney: No, absolutely not. The regulator herself and the system operator were on record at the time of the final result, saying, "These are exit signals". We are responding to these exit signals. From our perspective, when you lose half of your revenue and you cannot cover half of your fixed costs, that is the biggest exit signal you can get, because you do not have a viable business. We are not closing the entire business, just to be clear.

Q39 **Kate Hoey:** For substantial numbers of people, will that closure mean they lose their jobs or have you discussed what is going to happen? You made £9 million from just that one year.

Ian Luney: In 2016, we made £9 million. Remember, we are a large business with heavy capital requirements and longer-term commitments. We need to make sure we are profitable and the business is viable. That was 2016. In terms of what we have done with our staff, once we got the final results, given the materiality for the business and the materiality of the impact on our people and our external stakeholders, including Mid and East Antrim and others, we went straight into a mode of briefing them and letting them know where they stood. We have triggered the statutory consultation with the unions. That will end at the end of April 2018. Depending on this derogation process and where we land, if the derogation is granted, and the exit signal is true and believed to be the right signal, we will move to statutory redundancy for all 120 people at

Kilroot, over that three-month period from May through to the end of July.

Kate Hoey: Of course, it is not just the people who work there; it is the wider community. That particular area has had a lot of losses recently.

Ian Luney: These jobs are good, quality, professional manufacturing jobs. They have been there since 1992. These people have delivered, 24 hours a day, reliable, affordable power from Ballylumford and from Kilroot. I could not be prouder of them. These jobs will be going. It will affect them and the communities in which they operate, and it will affect the ratepayers of Mid and East Antrim.

Chair: I am going to bring it to an end there. Jenny, if you want to come back, please submit something to us in writing. It is now 11 o'clock and we really need to move on. Thank you ever so much. It has been a very lively session. They are not usually as lively as this, and we will want to go over the transcript in a great deal of detail before distilling things that will appear in our report. We are very grateful to you for coming today.

Examination of witnesses

Witnesses: Cllr Paul Reid, Anne Donaghy and Louise Kennedy.

Q40 **Chair:** Good morning and welcome. Thank you very much for your patience this morning. As you have probably gathered, the earlier session went on rather longer than is normal, but we took evidence that was of real value to our considerations in this important matter. Clearly, Cllr Reid and your colleagues, you are very much on the front line of this particular development. I would like to ask you, in my opening question, what impact you think the closures that have been announced at Kilroot and Ballylumford will have on Mid and East Antrim.

Cllr Reid: First of all, Mr Chairman, could I think you for the opportunity to present to the Committee here today on the electricity supply, not only in Mid and East Antrim, but indeed throughout the whole province of Northern Ireland? Just to set the tone slightly, Mid and East Antrim is one of the 11 new super-councils. We are 400 square miles. I understand that the Committee was in Londonderry, the walled city. We would like to give you and your Committee an invitation—we will be writing to back it up over the next few days—to a borough that is steeped in history, a walled town, one of the best-kept castles in Northern Ireland and including Slemish mountain. This is also an opportunity to go to AES both in Kilroot and in Ballylumford.

We as a borough have lost a number of large companies, no more so than Michelin in Ballymena and JTI, formerly Gallaher, which was a big blow to our economy. The council recognises the highly skilled workforce that we have within our borough, and we have set up a new ambitious integrated economic development strategy called Amplify to bring together and to work with businesses within our borough.

Our borough, as the Committee is probably aware, is in a unique position in the respect that we have two of the biggest power stations within Northern Ireland. Those power stations provide 25% of the energy to Northern Ireland. AES Kilroot and Ballylumford, over the past number of years, have invested heavily within Mid and East Antrim. They are a cornerstone to the Mid and East Antrim economy. There will be a loss to the rates of the region, and I will know the chief executive will speak on that, of about £1.4 million this year, going up to £2 million next year. AES has always been at the cutting edge for local employment and bringing jobs to the area. It has suppliers in the region of 1,220 firms. Of those firms, 348 are within our borough of Mid and East Antrim.

If Kilroot closes in May 2018, one thing for sure is that it will be a loss in the region of 270 jobs. Both employees and local contractors will lose their jobs. That is another big blow to our borough. If the power station closes, be in no doubt, Mr Chairman and elected Members, that it will never open again. That power will be lost forever to Northern Ireland. One of our worries is the reputation of not only Mid and East Antrim, but the province of Northern Ireland. If there is a threat to the supply of energy to Northern Ireland, potential investors will not come to Northern Ireland. We have heard a lot about the interconnectors from the south. They are not up and running. The Moyle interconnector, which the chief executive will speak about in a few moments, is not running at 100% efficiency, so we have concerns that we are facing—and excuse the pun—lights going out not only in Mid and East Antrim, but across the province of Northern Ireland.

Anne Donaghy: Thank you, Chairman. I am the chief executive of Mid and East Antrim Borough Council. To follow up on some of the comments the mayor made, the combined net added value of Kilroot and Ballylumford is £7.7 million. When we look at that, they are the top ratepayers for the Mid and East Antrim Borough Council area. Next in line to meet and match the amount paid in rates that is generated through Kilroot 1 and 2, you would be combining the rate income from the three top factories—Wrightbus, Caterpillar Larne and Michelin—plus three large retail stores.

This has a significant implication for the local ratepayer. This year, with one week to go to strike our rate, we were informed of the May date that was going to happen, so we had to find £1.3 million from our ratepayer and to cut services in order to absorb that £1.3 million. We are now faced with £2 million for next year's rate base. To put that in context for a council, we have three leisure centres, one in Ballymena, one in Carrickfergus and one in Larne, which cost £1.75 million to run. Next year, we have to find £2 million should Kilroot 1 and 2 close.

For us, that has detrimental financial impacts. For us as a council, there is the risk of redundancies. It is really important that it is not just the 270 jobs that we talk about; it is the local families and the wider community. The mayor talked about a supply chain here of over 1,200 small firms providing to Kilroot, of which 350 come from the Mid and East Antrim area. Mid and East Antrim has recently lost over 2,000 high-paid manufacturing jobs and here we are looking at more.

The regulator set out very clearly her vision, and we do not disagree with the vision. What is concerning us is the timeframe, the speed and the cliff-edge approach. When this was first talked about at the Committee in 2016, it was very sustained, with a transition plan that would allow up to 2022, so that Kilroot could refocus on the renewables, retain that supply chain, retain those employees, reskill and keep that skill base in Northern Ireland, yet now we have a cliff-edge approach. We as a council have seen that first hand, with one week to absorb £1.3 million from our ratepayer. I hope that gives you a feel.

Q41 **Jim Shannon:** Thank you very much for coming and for being so patient as well. It is something we require. You have outlined very clearly the effect of the 270 jobs and, to be fair, AES before also outlined the impact upon the workers and the long-term employment they have had. In light of that, I want to ask what discussions you have had with AES, ESB or any of the other electricity suppliers that might perhaps invest or be interested in doing something to allay some of the fears you have, Anne, in relation to the impact on the rates. That is the first one.

I am very keen to ensure that the workers are part of this scenario and are not forgotten about, alongside electricity supply across the whole of Northern Ireland. If I can ask you, as a local representative and a chief executive, what are your opinions about the security of Northern Ireland's electricity supply? Those are the two questions.

Anne Donaghy: On the security of supply, I have spoken about the cliff-edge approach. This has to be a transition. We have to have a sustainable market. It is about an orderly exit. I feel that the fast-forward button has been pressed on the process. I have just outlined how we had to deal with that very quickly.

In terms of the rates, we have to manage that. We have to provide the services. I feel very much that, when you look at it, the full jigsaw has not come together. This is our concern. Yes, we understand that coal has to leave the market and we need to look at renewables. We totally understand that; however, we have planning permission in for the north-south interconnector. I am part of ARC21 in our council, which is a similar planning position that was granted in the same way as the north-south interconnector. That is under JR at the minute. The result of that JR may have huge implications for this, so I do not have confidence, and nor does our council, that this will go through.

We know that the building of this interconnector will not be smooth. There will be concerns. There will be issues. There will be stalling, both north and south, when people raise their concerns. I work with the public every day. We are an authority that runs planning, and I can tell you that planning is an issue where people, and rightly so, want to have their say. I am not confident that that process will line up.

We then look at the Moyle interconnector. It has had a history that is not so smooth and successful, in terms of being a sustainable source. We also know that there is a competitive process. We have had cold winters, and I know Mr Shannon said that earlier. We will then be competing for extra resource and extra power with GB and with Ireland as a whole. From our perspective, there are too many risks.

We are asking for a sustained approach and a transition process that is managed and is steady, which allows Kilroot 1 and 2 to be phased out in an orderly fashion. Allow them to build up their focus on renewable energy. Keep the employment. Keep the message that Mid and East Antrim is not a place where people will not come to invest because jobs are going like snow off a ditch. That is what we ask.

Q42 **Jim Shannon:** On the Moyle interconnector, it would be helpful for the Committee to have information on where we are in that process. Can you send information through to us, if that is easier?

Anne Donaghy: Yes.

Cllr Reid: If I could answer Mr Shannon's question as an elected member, every job that is lost within Mid and East Antrim is one of our citizens. We as elected members are very conscious of that. We are very conscious that we would like to try to keep employers in our borough, if we can. Our main concern, as the chief executive has alluded to and you have just referenced, is the Moyle interconnector. The problem is that, when it comes to the mainland UK, if it needs that demand, there is no guarantee of supply. As the chief has already alluded to, the north-south interconnector is three to five years away from being fully operational. There may be even more legal challenges over ARC21 that would put that on the backburner. That is all over a chief civil servant taking a decision. We are concerned that there will be a void. How is that void going to be filled?

Q43 **Chair:** That leads me on to the question I wanted to put to you, which is firstly an observation that our report goes to Ministers, who are required to respond to the points and the recommendations we have made. It is fair to say that the previous report we produced on this subject resulted in a governmental response that we were not entirely happy with. I am interested to know what you think the Government's response to the situation, as far as electricity in Northern Ireland is concerned, should be. Obviously we are in a difficult position right now, because we do not have an Executive. It is a devolved matter. Normally it would be the Executive that deal with this, but we have Ministers at Westminster who have recently been obliged to set a budget for Northern Ireland. I was wondering where you think we go to, given the current impasse.

Anne Donaghy: In Northern Ireland, with no devolution, we as a council feel it is our duty to step in and try to do our best to represent the concerns that we have, both in the borough and beyond. We have written to the Secretary of State and asked her to look at the process. We have asked her to look at what intervention can be made in order to stop the cliff-edge approach. That is the first thing we have done.

Q44 **Chair:** Can I stop you there? What do you anticipate happening? Ministers have been very clear that they have set a budget, but they are not taking powers to themselves right now, which would probably require statute or some form of legislation, so what do you expect the Secretary of State to do?

Anne Donaghy: We would expect the Secretary of State to take a look at this and to alleviate the cliff-edge approach. We would expect the Secretary of State to step in and look at all the facts and figures. This has been taken as a one-year approach. This is our energy market. I want to look and want her to look at the medium term. The medium-term approach is really important in this. The regulator spoke about fairness and cost to the consumer, and that being a focus. That is also a concern for this council, because we know that the cost of energy in the Republic of Ireland is more than in Northern Ireland, and there has not been enough modelling done, in our opinion, on the medium term to look at where the costs will go and how this will play out for the citizen and the customer. That is ultimately where all our focus is.

We have also put it on the agenda for the Permanent Secretaries, along with the 11 chief executives, to discuss energy strategy, how we go forward, how we create sustainability and how we can make sure that we are accountable for citizens. We already have a number of investors, and we are trying to secure them for our area, to gain back some of the ground and some of the many thousands of jobs that we have lost: over 2,000 high-paid manufacturing jobs. It is really difficult when you are speaking to an investor if there is uncertainty in the market. It does not give a good message. Those are the things that we have been focusing on. We have been working with our MPs in the area, Mr Wilson and Mr Paisley, who have been steeped in the issue, as well as AES. We have spoken to SONI and we are meeting with the regulator in the next week or two.

Q45 **Lady Hermon:** That answers my first question. I have written down here that you have written to the Secretary of State. You have confirmed that, but have you met with the Utility Regulator? That was going to be my question.

Anne Donaghy: Back when this first came to the council's attention, and we were in the middle of our rates process, we wrote and made contact with the regulator. We are still waiting to have that meeting. It is now pencilled in and, along with me, the mayor and a number of elected members will be meeting with the regulator. The answer is yes. We have also met with SONI and we have met, most importantly, with AES and spoken to some of its employees.

Q46 **Lady Hermon:** I am delighted that you have met with AES. You were present when we took evidence from the representative of AES, Mr Luney. Presumably that was a meeting with Mr Luney.

Anne Donaghy: That is correct.

Q47 **Lady Hermon:** How did that meeting go?

Anne Donaghy: That meeting underpinned some of the concerns that we had as a council. We wanted to hear first hand. Our concerns, as you can imagine, Lady Hermon, were first of all from the rates point of view, because it affects every citizen in the borough when you are asked to find that money. Secondly, our attention turned to jobs and to us as an employer, the council, all the employees in it and their families. People who are employed in Kilroot are not just from Mid and East Antrim borough; they come from far and wide, across Northern Ireland. It was about understanding that.

I am not an expert on energy and I do not claim to be. My focus was not a technical focus, but it was the impact on investors, the impact on people and employees, and the impact on our rates. It was the impact of the reputational message for investors, not only for Mid and East Antrim, but for the whole of Northern Ireland.

Q48 **Lady Hermon:** What I would like you to reflect to us is this. Mr Luney said, at the very end of his evidence, that he was proud of the employees at Kilroot. I do not disbelieve that at all, but has AES shown what you would describe as any sense of loyalty to the staff at Kilroot?

Cllr Reid: As the council, we are very impressed by and proud of AES and the way that it has dealt with its staff, not only over this but down through the years. It has been an outstanding employer, one of the best employers that anyone could work for.

Q49 **Lady Hermon:** How is it managing this closure of Kilroot at such short notice?

Anne Donaghy: Unfortunately, Lady Hermon, I have experienced large manufacturers having to deal with the exit of employees, and it is not a very stable time for the borough and for Northern Ireland. In terms of its responsibility, I have been working with AES over quite a number of years. It has been very good to its employees and very supportive. It gives great training. It gives great career prospects. It has been very open with its employees. It has had the unions in. It has been very clear and upfront with them. It is finishing its consultation with its employees now. It has been very realistic. That has been very hard for employees, but it has been realistic.

In terms of its contribution to the wider community, it has been amazing. Its social responsibility has been absolutely exemplary, in my opinion, and there are already groups that have approached me from all over the borough to say they are concerned, because the funding that they get to, for example, run a community group to provide some advice on health and wellbeing, suicide and all those issues will not be there. As a council having to cut £1.3 million this year and £2 million next, we do not have the money to go and say, "Here we go".

Q50 **Lady Hermon:** Sorry to interrupt. Have you reflected that to Mr Luney and to AES?

Anne Donaghy: Yes.

Q51 **Lady Hermon:** How did he respond?

Anne Donaghy: Having had the T-1 action, if there is no sustainability in this company and it has to wind up and lose those employees, at the end of the day, I suppose it means that will end and that is where the concern is. I do not have the full answers in relation to that, but I would be concerned that the good work that it has sustained over many years, in terms of biodiversity, community help, community support and community grants will go as well. While that money is not the biggest amount of money in the world, it makes a massive difference to the quality of life of the people there.

Q52 **Lady Hermon:** You were present while the Utility Regulator was also giving evidence and she said very carefully, "We are working through a process at the moment and the process has not come to an end". AES has applied for this derogation and it is a very short period of time. 23 May is the date when we have to have some sort of decision about this. What I cannot reconcile is that AES knew that this was the first round and the first auction this year. It could have bid again next year for Kilroot, which was a profit-making plant, not a loss-making plant. It has contributed, and you have given us very valuable evidence indeed about its input, its great contribution and what a wonderful employer it has been. Did you get an explanation for why it has abruptly decided, "That is it. We are closing. We are off out of here", instead of holding on until next year?

Anne Donaghy: I have been working with AES. I am no stranger to it. I met with its previous president, Carla Tully, as well. We spoke at length with Carla then about the phased transition, where it had started the battery operation for example. That was its start into that renewable market. With all the will in the world, the short notice and this auction coming up for one year do not allow that growth to happen. In my view and the view of the council, this is about a balance. We totally agree that we need to move to renewable energy, but it is about doing it in such a way that we have all the jigsaw together; we make sure the north-south interconnector is going to be there and the Moyle interconnector is going to be a source; we have the alternative energy and other renewables growing. We will keep those jobs by doing that. That takes time.

We just went through the transition from 26 councils to 11, and we took a couple of years to do that. It was planned. You cannot turn off a big machine like that because, if you do, the implications are far-reaching. I do not believe that enough consideration has been given to the impact of this cliff-edge approach, so that is really what I would say. The regulator said that we are on the brink of a new movement and working forward, but we are not over the line yet and that is the concern. We are on the brink of that and that is absolutely brilliant for Northern Ireland, but on the brink does not give me or this council enough confidence that we are over the line.

Cllr Reid: In reference to the closure and the announcement, that it is a commercial decision that AES has taken. Whether it is right or wrong, it is not for the council to make any further comment. However, we are very sensitive to the market it is in. It has given evidence this morning on what that would mean for it, for one more year.

Lady Hermon: Yes, having made a profit of £9 million in 2016.

Q53 **Mr Goodwill:** With the benefit of hindsight, the writing was put on the wall for these power stations and other ones like them in 2008 when the Climate Change Act came through. We have heard already today that 37% of Northern Ireland's energy is produced from renewables, which is very close to its 40% target. A number of stations have closed in England, but others have taken advantage of the renewable obligation certificate system to invest in biomass incineration as an alternative to coal. Has there been any discussion in the past about making that switch at one or both of these power stations? Has there ever been any attempt to look at the port facilities that would be needed? If not, is that an opportunity for the future? These stations are quite old and need investment. Is there a possibility that that could go forward or is it something that the company has never talked about?

Anne Donaghy: I have to say the company is very focused on that. The game plan was about this transition period and building up those other technologies in the meantime. I spoke about the battery. Just to give you an example, I was pleased to read recently that wind generation was 61%. Four days later it is 8%. We are trying to get investors into a borough that has had a really difficult time. We have had so many people lose their jobs. It is not a plus to say that. We talk about the market, but all we want is sustainability and reliability in the market, over the next number of years, to allow the growth of what you speak about.

Q54 **Mr Goodwill:** Drax is just putting in its fourth unit at its power station. It invested in port facilities at Immingham a decade ago. It saw what was happening. Is it the fact that AES maybe has not seen the way the tide is flowing and took the view that, at some point, this plant is going to be worn out and it is old high-carbon technology in a new era?

Louise Kennedy: From a council perspective, we have been reasonably encouraged by the innovative approach AES has taken. We heard earlier about its battery generation and those areas. It is an innovator in that sector. Our concern is around this process and that the acceleration of the closure will mean that some of those areas will not materialise in the way that they could have done if it had had a slightly longer close-down, with a glide-path approach, rather than this fast-forward approach and a more abrupt closure. That reflects on AES and its contribution to Mid and East Antrim. It reflects that Mid and East Antrim is an innovative and economically active area. There is no reluctance to switch to those new models and new ideas. There is certainly an appetite for that, but the process has accelerated now and may cause difficulty in fulfilling some of those possibilities.

Anne Donaghy: We are in a position with no devolution. We had decisions made in the same way as the north-south interconnector, in terms of planning. This council is in the middle of one of those decisions in terms of ARC21. When you are trying to make change, you have to look at delays and give citizens and people the right and the time to challenge things.

In terms of ARC21, it is a new way we are looking at for how to deal with waste. It is a new approach for those councils in Northern Ireland and will change how we deal with waste, but it has taken much longer than we thought. In terms of our timeframe, we thought we would have been there now, but we are only at the JR. When I look at that, I use that experience to see if that could happen for the north-south interconnector. I cannot say that it will or it will not, but it is a possibility. How the ARC21 JR plays out will have a huge impact and may relay straight on to the north-south interconnector. It is something where, in Northern Ireland as a whole and beyond, people have concerns, people have issues and people have questions. It is probably something that people will be asking questions around.

Cllr Reid: On wind power, in my own district electoral area, a number of people have wind turbines. Those who are from Northern Ireland will know that they are very frustrated at times. Either there is no wind or there is too much wind and they cannot produce. As the chief has rightly said, one moment we are told 61% and then we are told 8%. We cannot depend on that market. If there is too little wind or too much wind, they cannot produce any energy.

Chair: That is where the battery comes in, isn't it? I fully understand your concerns about the interconnector. We all have experience of planning and how that can sadly delay large infrastructure projects.

Q55 **Kate Hoey:** We saw the battery storage when we visited and we were very impressed with all of that. It is very sad that that may not be able to be continued. I presume, Cllr Reid, it was a big shock when you heard that it had not won the contract.

Cllr Reid: Yes, it was a shock. I do not fully understand how the contract works.

Kate Hoey: I do not think I do either.

Cllr Reid: You would be one of the very few. Elected members were shocked. This is big power and rates are worked slightly differently. The company is rated on the energy it produces. Therefore, as you have heard, it was £1.3 million seven days before we were legally required to strike a rate. Our officers were working day and night, and it was a shock to the community. A number of citizens were frightened and still are scared that the lights will go out in Northern Ireland, because the guarantees have not been given to elected members, to Mid and East Antrim or indeed—I will go further than that—to the province of Northern Ireland. It is will not be unique to Mid and East Antrim Borough Council, our 400 square miles of turf. It will affect the whole province, and that is the fear.

Q56 **Kate Hoey:** In the last few months and the last year, Mid and East Antrim Council has lost nearly 2,000 jobs.

Cllr Reid: We have lost more.

Anne Donaghy: We have lost up to 2,500 high-paid manufacturing jobs.

Q57 **Kate Hoey:** If an area your size had lost 2,000 jobs in England, would Government have perhaps taken more of a direct interest? Do you feel that there is still an opportunity or room for direct government involvement or investment in certain parts of your council?

Cllr Reid: Mr Chairman, through you, we would look for the Secretary of State to intervene in this particular case. I know that the Chairman has pointed out her powers and these have been devolved to Northern Ireland. However, Northern Ireland is in a unique situation. We do not have our Assembly currently meeting. Therefore, there are jobs haemorrhaging right across the province of Northern Ireland and we believe that the Secretary of State should step in, at this juncture.

Q58 **Kate Hoey:** What you are really saying is that this has all happened so quickly that you cannot understand why the derogation should be given. Is that what you are really saying?

Anne Donaghy: What we are saying is that it is about slower transition, so that we can have AES manage the jobs, keep the jobs and put them into renewables. We can keep AES open. If AES or Kilroot 1 and 2 close, it means 1.6% of our GVA.

Q59 **Kate Hoey:** I am just saying that your case to the regulator is that this may have to happen in the future, but it is happening far too quickly and without the planning.

Anne Donaghy: Correct. What we are saying is that being on the brink of something new is not security enough for us. We want to be over the line. We want all the parts of the jigsaw to be there and to be secured, and we also want to ensure that it is phased, as was originally talked about, over a number of years. This council completely supports renewable energy and other alternative ways, but it is about that managed approach.

Q60 **Kate Hoey:** The regulator is the most important person at the moment, in all of this.

Anne Donaghy: Absolutely.

Chair: Thank you very much indeed for coming today and for being so patient. What you have said has been extremely insightful. This is clearly a matter of grave importance to the area that you represent and to the whole of Northern Ireland. Thank you also for your invitation to visit, which we certainly will take up when we can. It will be a delight to visit. I know when I was appointed as Chairman of the Northern Ireland Select Committee you wrote to me then and that was a very attractive invitation. You have reiterated it now and we will most certainly consider that as a Committee. When we can come, we certainly will do so. Thank you ever so much.

Cllr Reid: Can I just say in closing, Mr Chairman, that we appreciate your time and the Committee's time to listen to our cause and our concerns from Mid and East Antrim? Thank you very much.