HOUSE OF COMMONS

Northern Ireland Affairs Committee

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

Wednesday 21 March 2018

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Watch the meeting

Members present: Dr Andrew Murrison (Chair); Mr Gregory Campbell; Mr Robert Goodwill; John Grogan; Lady Hermon; Ian Paisley; Jim Shannon; Bob Stewart.

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Witnesses

I: Dr Patrick Keatley, Research Fellow for Energy Storage Integration, Ulster University.

II: Dara Lynott, Chief Executive Officer, Electricity Association of Ireland; Stephen Wheeler, Managing Director, SSE Ireland; Andrew Greer, General Manager Northern Ireland, SSE Airtricity.

Written evidence from witnesses:

- Dr Patrick Keatley
- Electricity Association of Ireland
- SSE

Examination of witness

Witness: Dr Patrick Keatley.

Q61 **Chair:** Dr Keatley, good morning and welcome. It is very good to see you back before the Committee. You know the format, because you have been here before. I would like to ask you to kick off by saying how things have changed over the past few months, particularly in the light of the closures, which we were expecting when you last gave evidence, but which are now further down the road, and the extent to which that changes the picture as far as electricity is concerned in Northern Ireland.

Dr Keatley: Good morning. Since the last time I gave evidence to the Committee, obviously the major changes are the announcement of the potential to close Kilroot and the final approval for the north-south interconnector. Aligned with that is the imminent arrival of the I-SEM, the new all-Ireland market, and the new capacity market that goes with it. The change since the last time, I suppose, is that the capacity market is now a market, rather than a straightforward payment mechanism.

That is a change whereby the generators that are connected to the system are currently paid just to be connected, effectively. They are now in a competitive auction process, and they have to compete to be awarded capacity payments. The first round of that, the T-1 auction, is complete, and the two Kilroot coal units did not make the grade for that capacity auction. They then lost their capacity payment for that period, and as a result of that AES has said that it cannot continue to keep those units in the market. That is the discussion that you had last week, and that is the context for this.

Q62 **Chair:** What has also, I suppose, changed over the past few months is that the lack of an Executive has become more entrenched. I wonder to what extent you feel that the lack of an Executive in Northern Ireland is holding back the development of SEM and I-SEM, and what impact it is having in general on the assurance that Northern Ireland will have continuity of supply.

Dr Keatley: The absence of the Executive and the fact that no policy has been developed since 2010 is the most significant threat to electricity security of supply and to consumers, in terms of the risk that prices will go up. It is hard to overemphasise how much the electricity market has changed since 2010. That is largely because of digital technologies, new market models and new sorts of technologies that can be owned by consumers and connected at distribution level, at the far end of the network.

To describe the system that we have now, we have inherited a traditional style of system where generation, ancillary services and so on are provided from the top down, but there has been a very rapid change in

markets since 2010, over the last three or four years, because of what I have just described. The Northern Ireland system is perfect for what are called DERs: distributed energy resources. Those are things like small-scale generation, domestic generation, domestic battery storage, electric vehicles and so on. The speed at which that part of the market has changed is eye-watering when you compare it with the traditional rate of change in the electricity markets. Electricity systems historically have changed in line with what policy dictates. Because it is very capital intensive, policy was able to set the scene for particular forms of generation and types of systems to be built.

All the changes that have happened recently are coming from market forces, and they are outstripping what policy can keep up with or has been able to do historically. The absence of the Executive and the failure to develop any kind of energy strategy or policy moving forward is putting Northern Irish consumers at real risk of missing out on the potential not just to play a more active role in the market, but to build out and continue building a system that is really designed for the late 20th century.

Q63 **Jim Shannon:** It is very nice to have you here. You have a very popular name. I notice that many other people have that name as well. I want to ask you a couple of questions about the electricity supply. Thank you for your coming to the Committee and giving us a chance to ask you some questions. Northern Ireland's electricity supply seems to be unsure. In your opinion, how secure is it at this moment?

Dr Keatley: At this moment, in the system as a whole, we are oversupplied. The question for the Committee is what the potential closure of the two coal units means for Northern Ireland. That is really what we are about. The way that that is worked out is the responsibility of the system operator. As I understand it at the moment, there should be, under the grid code, if Kilroot were to close, three years for the notice of closure before those units are disconnected. They have asked for a derogation so that they can disconnect immediately following the start of the new market arrangements. The question is whether they are allowed to disconnect. Are they allowed to take those two units from the system in May?

That goes back to the system operator. Is the system then secure if those two units go? The way that the system operator has developed the tools, the software and the approach to how security of supply is calculated has changed, because we have got very good at integrating wind, and we have a more flexible system that is better able to deal with peaks. That question of when those two coal units go still has to be answered, but my take on it would be that, if the system operator says that there is enough capacity on the system for it to be secure under the current arrangements, the System Operator for Northern Ireland is not the kind of organisation that is going to say, "It will probably be all right.

We will give it a go". It will not say that the system is secure unless it is certain that it is.

Q64 **Jim Shannon:** You have very clearly outlined where we are, and many feel that we are on a cliff edge at this moment in time, for whatever the reasons may be. Do you have any thoughts on how we can ensure that we do not end up on a cliff edge, like we are now? Up until now, we have had some continuity of supply and that has been important. In your opinion, is Northern Ireland's electricity sector open to private sector investments that could secure supply for the future in the Province? That is really what I want to try and get to.

Dr Keatley: No. I go back to what I was saying: the way that we have evolved so far has been based on the traditional top-down model, where everything is centrally supplied. The policy and regulatory environment that we have at the minute has, in some ways, consolidated that, because the incumbent generators were given the task, back in around 2007, of integrating large-scale wind on to the Irish system. They have effectively been consolidated, because they have been given that role and the system is now built around a wind-dominated system, which is managed by top-down assets.

The changes in technologies that are available mean that bottom-up technologies, consumer-owned technologies, could play a much more active role, particularly in Northern Ireland, where we have a queue of 400-plus MW of wind generation, which has ROCs approval, but has no connection capacity. It would be possible to get that, or a good proportion of it, connected using smart systems, bottom-up consumer-owned systems, but the policy and regulatory environment does not exist to do that.

Q65 **Jim Shannon:** What would be the quantity of that wind power if it was all galvanised on the system? What would that mean for its percentage of what the system provides?

Dr Keatley: In terms of energy?

Jim Shannon: Yes.

Dr Keatley: We have 400-plus MW of wind, which has a very small capacity value, because it is uncontrolled. Could you work out a way to connect that without having to build huge amounts of infrastructure? To loosely describe what we are doing with that, I would describe it as "building dumb". When we are doing system and network planning, we total up all the loads in a particular part of the system, stack them up and then say, "We need a wire that thick to serve all those loads at once. If all those loads happen at the same time, we need that amount of transmission distribution capacity to serve that, and we need this volume of generation".

If you use digital communications and ICT to manipulate those loads in time, and if you have storage and load response available to you, you can

make better use of the existing assets. If you have that queue of wind, if you have, in the parts of the network where wind turbines need to be connected, consumer loads, which can be shifted in time, or if you have energy storage, for instance domestic batteries, in the same part of the network, which can provide load on response, you do not have to build out the same amount of infrastructure and you can use consumer loads, which can be shifted in time, to help you to manage that. This kind of technology has developed very rapidly, and it is already being deployed in other systems. But our policy has just stood still since 2010.

Q66 **Jim Shannon:** To go back to the last point, does that come back to the fact that we do not have a working Assembly to make that happen?

Dr Keatley: Yes. Where those kinds of systems have been developed, it is policy leadership that grasped this and put it at the heart of the system. A specific example of that is the California system operator, where Governor Brown in California has turned around the approach to how system planning is done. The way we do it is to look at the centralised assets and the transmission and distribution system, and look at how that is managed. California has effectively turned that on its head. In system planning, the first element that is considered is DERs, distributed resources, effectively consumer-owned resources. That is the core of planning, and the rest of the system is built around that.

Q67 **Lady Hermon:** It is very good of you, Dr Keatley, to come and give us evidence this morning. I have taken quite a quantity of notes from your evidence today, so I will just ask you to clarify several of the points that you made. It is very interesting evidence indeed. Are you expecting electricity prices to rise in Northern Ireland? You have hinted at them rising.

Dr Keatley: In I-SEM?

Lady Hermon: Yes.

Dr Keatley: Possibly, potentially, yes. The I-SEM market is—

Lady Hermon: Can you just spell it out?

Dr Keatley: Okay. The last time I was in front of the Committee, I described the SEM, the market structure we have at the minute, as not really a market, and it is not. It is a gross mandatory pool with a competitive price-setting mechanism. It is a sort of a market. Basically, all the generators sell in and get the same price, and all the suppliers who bid in to buy from the market buy at the same price. It is not a market in that sense. I-SEM is, in that you will have generators saying, "I am prepared to sell electricity in this volume, at this time, for this price", and you will have buyers who say, "I am prepared to buy at that time, at this price". Then you put those two together, so it is more like a market.

It is much more complex than SEM. SEM is just a single thing. It is a day-ahead mechanism, so the generators bid in the price they want to sell at for the day, the demand stack is worked out, and the market operator works out how much generation is needed. That is what sets the price. That is it done, for the day.

Q68 **Lady Hermon:** Will prices increase for consumers? That is what people want to know. Will electricity become more expensive?

Dr Keatley: I cannot answer that, and neither can anybody else, because this is a much more complex market and much more responsibility lies with the market participants. There is potential, when this kicks off, for a new market that is much more complex, where people are balance responsible. It will take some time, there will be a learning process involved in this and, if market participants get it wrong, they may well get their fingers burned. It may mean that prices rise until that is resolved.

The overall aim of I-SEM is to put more downward pressure on prices, and it probably will in the long term. I think it probably will; that is the aim of it, but it is a much more complex thing, and there is a lot more responsibility. At the moment, everybody is looked after by the market operator, and everything is resolved in the middle by the market operator. Participants are much more responsible for their own position in the I-SEM, and that may take some time to work out.

Q69 **Lady Hermon:** In the long term, what are you expecting?

Dr Keatley: In the long term, it is a good thing, and we are going in the right direction, because it should be more competitive. One of the problems with the SEM, which has been fairly obvious from the start, is that we have quite a concentrated market on the island. There are a limited number of players, and the biggest player of all is ESB. In the SEM, there is not much liquidity. There will be much more trading and much more forward trading in the I-SEM, and that should help to address that problem.

Q70 **Lady Hermon:** Could we come now to AES's decision about closing Kilroot and applying for a derogation, but with the aim of coming off the market and closing it in May? It is very short notice indeed. How convincing did you find the evidence given to us last week by the AES representative?

Dr Keatley: On the AES position, it seems strange to me that it is May. The capacity auction was not a surprise. This has been coming for a long time.

Lady Hermon: It was well planned, yes. It was signalled well in advance.

Dr Keatley: As part of its approach to that, AES has said that, because it has to load all the maintenance costs that it has for the coal units into

that one year, its prices are much higher and it had to bid in much higher than the capacity market. I am not speaking for AES or for the regulator, but I would have thought some sort of scenario planning would have worked that out beforehand, and that it should have been able to plan for not securing capacity payments in the new market. That need for maintenance should or could have been managed, so that that cost was spread over a longer period, and it could have carried the hit for one year. That was what struck me about that.

The other thing about the inquiry generally is that a lot of the decisions about what AES has done were not taken by Ian Luney and his team at Kilroot. Investment decisions about Kilroot have been taken by AES Corporation. I do not know if the Committee plans to ask the board of AES, for instance, to explain what has happened.

Lady Hermon: After your evidence this morning, we probably will.

Dr Keatley: I guess that quite a lot of the decisions have been made elsewhere, and that that was not Ian's decision.

Q71 **Lady Hermon:** That is a guess on your part.

Dr Keatley: That is a guess on my part, but it is what I would assume. AES, overall as a corporation, is seeking to move away from coal. It has sold off and decommissioned a lot of its coal capacity in the last year, and it is getting into storage and into renewables. That is the way the corporation is moving. It is concentrating its business in North America, South America and renewables. Its strategy is to move towards that and it is not intending to operate in as many countries as it does now.

Q72 **Lady Hermon:** So you were surprised by the decision to close Kilroot at such short notice.

Dr Keatley: Given that under the grid code it is required to give three years' notice, in order to allow for an orderly process, and given the fact that we knew the capacity auctions were coming for a long time and everybody had visibility of that, it seems to beg the question.

Q73 **Lady Hermon:** So it was a surprise.

Dr Keatley: Yes, absolutely.

Q74 **Lady Hermon:** Could I just move to the last issue, and that is the issue of Brexit? In your view, what will be the impact of Brexit on the electricity market and prices in Northern Ireland?

Dr Keatley: All the indications are that the I-SEM will continue. Northern Ireland will continue to be part of I-SEM and will not be affected. The energy trading and electricity trading will not be affected. The Prime Minister in her recent speech—

Q75 **Lady Hermon:** Which one?

Dr Keatley: I have forgotten which one. It was two or three weeks ago, and I have forgotten, but she mentioned specific topics that the UK would remain engaged with following Brexit. There were a couple that were of interest to me. One was research programmes, and the other one was the internal energy market, which obviously the UK is involved in as a whole. That has been specifically mentioned. There have been many references over time to Northern Ireland continuing to operate in the all-Ireland market.

Q76 **Lady Hermon:** Do you think those assurances, albeit from the Prime Minister, are sufficient? You do not think something more should be put in place.

Dr Keatley: It is as clear as it can be. I would go back to the point that I was making about distributed resources. That is a hedge for us, because it means we make more of our own energy in Northern Ireland. It means we can integrate more renewables, more wind, more solar. That is the hedge in every scenario, because we are less dependent on what is happening elsewhere.

As to the outcome of Brexit or the outcome of I-SEM, should I-SEM initially not turn out as well as people think, or should the north-south interconnector be delayed yet again, if we are more self-reliant, that is a hedge in all those circumstances.

Q77 **Ian Paisley:** Dr Keatley, whom is Northern Ireland dependent upon for its energy, as a result of the decision about Kilroot?

Dr Keatley: Are you talking about system security?

Ian Paisley: Yes.

Dr Keatley: We do system security assessments on a jurisdictional basis. There is a Northern Ireland assessment, a Republic of Ireland assessment and an all-Ireland assessment. The system operator's role is to ensure that it is secure in its supply for Northern Ireland, so the outcome of the decision by AES or whatever decision it eventually makes will be taken into account by the system operator. We are self-reliant in terms of SONI. That is its role. I am not sure if that answers your question.

Q78 **Ian Paisley:** We are self-reliant.

Dr Keatley: Yes.

Q79 **Ian Paisley:** We get all our energy in-house. Is that from the UK or from Ireland?

Dr Keatley: We have system security in Northern Ireland.

Q80 **Ian Paisley:** We have system security. Whom do we get our energy from, as a result of this decision to close Kilroot?

Dr Keatley: That depends on what AES does.

Q81 **Ian Paisley:** What are the options? Spell them out.

Dr Keatley: There is AES Ballylumford, and there is Coolkeeragh. We have three power stations, and there are the remaining generators at Kilroot, which did succeed in the capacity auction. There is that, and the wind and renewable generation that we have as well.

Q82 **Ian Paisley:** So we are totally in-house dependent. This decision really does not change anything.

Dr Keatley: It reduces the role for the two coal units, but partly that is because some of the units that were successful in the auction were DSUs, demand side units. There had been an expansion in their capacity, so they now have a more prominent role in supplying that capacity.

Q83 **Ian Paisley:** Is the fuss over the interconnector on the side of this completely irrelevant?

Dr Keatley: No. The interconnector is more about market efficiency. We expected to have it in 2012. Because the interconnector is not there, the market operates less efficiently than it should, and that adds to costs. There is an interconnector there. There is a 275 kV interconnector. To use the analogy of roads, that is like a dual carriageway and the 400 kV interconnector is a motorway.

In the absence of the 400 kV interconnector and with the resources that we have, according to the system operators' assessment, we have security of supply, and the question now is whether there will be security of supply if the two coal units close.

Q84 **Ian Paisley:** The answer to that is what?

Dr Keatley: It is over to the system operator now to say whether—

Q85 **Ian Paisley:** What is your view? As system operator, what would you say?

Dr Keatley: I would stress this again. I do not have to stand over a decision.

Q86 **Ian Paisley:** I know you do not. I have not told you to, but just give us your best guess analysis, as an expert in this field.

Dr Keatley: My best guess analysis is that, overall, we have enough capacity.

Q87 **Ian Paisley:** Previous evidence we have heard at this Committee is that, if we do not get the interconnector up and running by 2020, the lights will go out in Northern Ireland. Is that an exaggeration?

Dr Keatley: I think it is, yes.

Q88 **Ian Paisley:** That is very good to know. When you were answering a question from the Chairman, you said of the cost controls and the impact on consumers that consumers were at, in your words, "real risk". Spell

that out. What risk are consumers at?

Dr Keatley: The way we build it I describe as "building dumb". With these technologies, like EVs, battery storage and PV, because it is coming down in price so much, the risk is that, because they have got so much cheaper and people can now afford to buy them themselves, those who can afford to buy them will buy them, and the cost of the grid and the remaining part of the system, which is largely fixed, will be spread among a smaller pool of consumers. The people who cannot afford to have their own distributed smart technologies will be left to pick up the cost of the remaining infrastructure. That is the risk.

Where policymakers have recognised that, as I described in California, rather than try to keep it at arm's length or control the speed at which it is deployed, they have tried to embrace it and make it a core part of the system. Where that does not happen and we try to keep it at arm's length, it is going to go ahead anyway, because market forces are dictating the pace that it is changing at. Those kinds of technologies are coming anyway, and the question is whether they are integrated with the system, harnessed and put to work for the benefit of everybody on the system, or whether people are left to do their own thing and look after themselves.

The particular risk in Northern Ireland, for me, is that we have a very peaky demand profile, and that is basically because we do not have a big industrial base. We do not have big industrial consumption. Most of the new deployments of PV, for instance—and people are talking about batteries and their own self-generation behind the meter—are being done by Northern Ireland businesses. Overall, that has meant that load is going down. There is, overall, a cross-subsidy, because of the way that policy costs are paid for, from businesses to domestic consumers in Northern Ireland. The less energy those companies take from the grid, or the less engaged they are with the grid, the fewer kilowatt-hours are bought by them, and the more costs are pushed back towards domestic consumers. That is me with my EMAG hat on, from the Energy and Manufacturing Advisory Group. It would not take very many businesses in Northern Ireland taking themselves off the grid and turning their back on the grid for the impact of that on cost to be felt by domestic consumers.

Q89 **Ian Paisley:** The only way to control that is really by subsidy and support to either the consumer or the industry.

Dr Keatley: The way to control that is to create the right markets for the value that those consumer-owned assets can bring, whether it is business consumers or domestic consumers, to create market structures and the right regulatory environment for them to be rewarded for the value that they can bring to the network. That is the way to keep them engaged, so that they can be rewarded for what they bring, but they also pay to use the network to create that value.

Q90 **Ian Paisley:** If you are a large manufacturer in Northern Ireland, the energy costs are extremely high, compared with a sister company outside Northern Ireland. You are going to do exactly what you have described there: you are going to look at alternative energy means, because that will be cheaper.

Dr Keatley: Take Bombardier, for example.

Q91 **Ian Paisley:** That will bring down your cost of supply, your cost of production, and hopefully then make more profit, which is perfectly permissible and is the way any normal business would think about it, but the impact on the consumer is that they will have to pay for the electricity that business is not using.

Dr Keatley: Exactly.

Q92 **Ian Paisley:** The only way really to control that is by Government stepping in.

Dr Keatley: It does not have to be subsidies, but they have to create the right markets, so that those behind-the-meter systems, as they are called, can also deliver benefits to the network and to other consumers. There is no structure for that to be monetised at the minute.

Q93 **Ian Paisley:** I notice businesses that are doing exactly what you are saying. Do you see it becoming a stampede, because of costs?

Dr Keatley: The costs of those kinds of behind-the-meter technologies are only going one way, and they are just getting cheaper and cheaper. As businesses, you would be nuts not to do this. You can do it more cheaply and reliably, and give yourself some certainty in the long term about prices, because for renewables all the cost is up front. It is capital, but thereafter you know exactly what you are going to be paying for a long, long time. It just makes sense to do it, and the more people do it, the more the risk is that the cost of the stranded asset is shared among fewer people.

Q94 **Ian Paisley:** To our cost, we have seen the price for companies that have not done it. I am thinking particularly about Michelin.

Dr Keatley: Yes, exactly.

Q95 **Ian Paisley:** What should Government do? If you were in No. 10, or on the hill if things were working, and you had a white piece of paper, what would be the three or four things that Government should do now to address this?

Dr Keatley: First and foremost is creating the market and regulatory environment for consumers and consumer-owned, distributed assets to play a central part in system planning going forward. Where we have got to now is that we have created a very flexible system that has integrated a lot of wind, and that has put downward pressure on wholesale costs, but it has all been done with centralised assets. To manage that, we have spent a lot of money on capacity, both generation capacity and

creating new markets for ancillary services. That has all been done from the top down. That has been done by incumbent generators. The whole system, since 2010, since the start of the SEM and since the 2020 targets came out, has been built around them.

We should now, specifically in Northern Ireland—and this is particular to Northern Ireland, because of the dominance of a handful of state-owned companies in the south—be looking to make ourselves more self-reliant and create that local value at the far end of the network, down in the weeds of the network, at local community level and so on, to monetise the value that those kinds of systems can bring. We have a very particular kind of system. We are a very dispersed population. We have about half the population density of the UK, and we have a long, stringy network, so we have twice the amount of wires that GB has per customer. We also have lots of uncontrolled generation; we have loads of wind. We are very good already at connecting and controlling uncontrolled generation, but, as I said, that has been done from the top down. We can go beyond that, by giving consumers a role in connecting up that remaining queue and becoming the central part of the system.

Q96 **Ian Paisley:** Should that be incentivised in some way? Should Government incentivise that?

Dr Keatley: If it is done properly, the incentive is that you reward people for the value that they bring. You do not necessarily have to subsidise it. You may do trials and demonstrations, or you may have a period where particular technologies are subsidised while everything is finding its feet. That has been the case with wind, so why should that not be the case with consumer-owned assets? But, overall, if the market structures are there, that is how you incentivise it. People can afford to do it, and it makes sense to do it.

Chair: I am conscious of time, colleagues, since we have Northern Ireland questions. I would urge colleagues to be brief, if they can.

Q97 **Bob Stewart:** Thank you, Dr Keatley. I will be quick. My impression is that the Northern Ireland electricity situation is in a stronger and more stable position than the rest of the UK, and is more reliable. Is that a correct impression?

Dr Keatley: Yes. To go back to capacity, we have had a capacity mechanism, which, although it is a clunky thing where everybody gets a payment, has worked, in that new capacity was built. The capacity mechanism we have at the minute started in 2007, and quite a lot of new gas capacity was built. It was all built on the southern side of the constraint, which is the absence of the north-south interconnector, but there is capacity there.

In GB, the incumbents lobbied for there to be a capacity market under the electricity market reforms, and that has cost somewhere in the region of £3.5 billion, but no new gas capacity was built. That was really the

thesis for having a capacity market in the first place. That has not happened in GB, so there is a narrower margin.

Q98 **Bob Stewart:** That is the impression I got from you saying you had a self-contained market, which is always a good thing from the point of view of stability.

Previously, you have said that not having the interconnector would cost about £20 million to consumers. Do you still stand by that: that putting the interconnector in will reduce costs to consumers by about £20 million?

Dr Keatley: I think that figure is correct. The total cost of constraints on the island is over £100 million. The specific cost of the absence of the interconnector, yes, I think is of that order.

Q99 **Bob Stewart:** I will be short and to the point: presumably that is because there is more electricity available, and therefore the cost goes down.

Dr Keatley: It means more efficient generators. It will drive down costs. You can get at the more efficient generation, which is on the other side of the constraint.

Bob Stewart: I have got it. Thank you.

Q100 **Mr Goodwill:** Politically, we would be looking at three objectives: first, to ensure security of supply, and we have had reassurances that that is indeed secure; secondly, to get good prices for consumers, and you have also reassured us that this market should result in prices being lowered; and thirdly, the greening of the system.

My question is this: what would happen if there was conflict between the second and third? If other factors came into play—for example, if we had cheaper shale gas available or world prices of coal fell—would there need to be political intervention to ensure that we continued to green the network and meet our obligations under the Climate Change Act, or would that system result in cheaper prices but less greening?

Dr Keatley: That is hard to say. On the island as a whole, our significant indigenous resource is wind. That is great in some ways, because it is abundant. It is everywhere in Ireland and Northern Ireland. It is a windy place. The costs of renewables, the costs of onshore wind, have gone down and down and down. There are now projects going ahead without subsidy. There are wind farms being built without subsidy, and we are moving into what will be a post-subsidy era.

In terms of the question, if shale gas and conventional gas became available, that might change the picture, but I find it very hard to see how investors would put money into a new gas plant, which would be something in the order of £300 million.

Again, I am always banging on about DERs, but as those technologies come forward, as more renewables come forward, there is less of a requirement for big gas plants, because baseload has gone. Baseload does not exist any more. What you need to support that are very flexible resources, and exactly the kinds of technologies that AES was talking about building at Kilroot. In its next phase, it was looking at a combined battery and high-efficiency gas turbine unit, which was purely to provide flexibility, not to provide baseload. Even if gas suddenly became available, I do not see how an investor now would be sure that in the longer term, in 10 or 15 years, they would still be able to recover their costs.

Q101 **Mr Goodwill:** That is reassuring. As electricity crosses the border, in effect carbon is crossing the border, or indeed renewable energy is crossing the border. Is any account taken of that in terms of the UK's climate change obligations, or is it discounted?

Dr Keatley: It is done separately. There is a calculation for the island in all, and then there are calculations for Northern Ireland and Republic of Ireland emissions.

Q102 **Mr Goodwill:** There is no cross-border accounting if we export.

Dr Keatley: To be honest, I am not sure. We look at what is generating in Northern Ireland, and the carbon intensity of that. I am not sure whether we include what is coming through the existing interconnector in that calculation.

Q103 **Mr Goodwill:** If we are exporting renewables, we may be over-credited with carbon reductions, and vice versa: if we are importing high-carbon energy, we could be looking better than we are.

Dr Keatley: I will be honest: I am not sure how that is calculated. I would need to come back to you on that. I will go and ask the question.

Mr Goodwill: It is a bit of a nerdy question.

Dr Keatley: It is. I am not sure how it is done, but it is an important question.

Q104 **John Grogan:** You say Northern Ireland has abundant wind and so on, but I will just press you a bit on the security of the system. Imagine in the next two or three years a really freezing cold month across the whole island of Ireland, so there is not much coming from the south to the north, it is not windy, and the storage is not as good as it should be at the moment. The Moyle connector with Scotland is pretty unreliable, I think, at 50% reliability in recent years. Are you absolutely sure that we could not have a bit of a problem?

Dr Keatley: Again, it does not really matter what I say, because I do not have to stand over it. It is the system operator who has to stand over it. As to the approach and the modelling, you are talking about five still days in January, and it does not happen very often, but it does not have to

happen very often. It only has to happen once. As to whether the system is secure and there is enough generation, that is the role of the system operator. That is its job. Again, it has all the expertise; it has all the modelling. It is not the kind of organisation that will say, "It will probably be okay". It just does not do that.

Q105 **John Grogan:** You are putting a lot of store, and I have listened to you carefully, on the potential for self-generation and so on. We have had some evidence that there is no support mechanism for larger-scale renewable investment. Are you basically saying that that is not needed? How would you react to that sort of evidence that we are getting?

Dr Keatley: We have a lot of renewables connected in Northern Ireland, about 1,000 MW, and we have a queue of a further 400-plus MW, which all have the ROCs subsidy. Whether there is a requirement beyond that for large-scale renewables is questionable. There is the existing queue. In order to get that connected and to realise its value, you would look at what consumers can do to help you connect and manage that. Beyond that, I do not know. It is an open question. Whether there is a role for more of that top-down, large-scale renewable generation, I do not know. The way that the market is going is more towards demand-side, small-scale, consumer-owned assets.

Q106 **John Grogan:** My final question goes back to the Brexit question and the integrity of the single market across the island of Ireland. Is your basic understanding that that would mean, in terms of electricity, the rules of the single market in Europe would have to be accepted? We would be a rule-taker, effectively.

Dr Keatley: Effectively, yes, and the European Court would be the final arbiter of that.

Chair: Dr Keatley, thank you very much indeed for being here today. We are very grateful for your time and for you getting the red-eye flight from Northern Ireland this morning. We are most grateful to you. Your evidence has been extremely valuable, as it has been in the past, and it will be important in forming our follow-up report. Thank you.

Dr Keatley: Thank you very much, Chair.

Examination of witnesses

Witnesses: Dara Lynott, Stephen Wheeler and Andrew Greer.

Q107 **Chair:** Good morning, everyone, and welcome. Thank you very much indeed for coming to give evidence to us this morning. As you will probably be aware, we have Northern Ireland questions at 11.30, so time is quite constrained, and I am going to appeal to colleagues to be brief in

their questioning.

I will just start out and ask, very, very briefly, about the strategic energy framework, since of course we do not have effective government in Northern Ireland at the moment, and it has been put to us previously in evidence that, without this being updated in advance of the end of the decade, we are going to be in an unhappy place in terms of moving forward. I would just ask you, very briefly, whether you think that the current impasse at Stormont is impacting at all, and if so in what way, on electricity provision to consumers in Northern Ireland.

Stephen Wheeler: It is a significant challenge. The lack of policy is a worry. As an investor, and a significant investor, in the Northern Ireland market, our investment confidence for making big decisions is challenged in Northern Ireland right now. Currently, we have a business in Northern Ireland where we have invested several hundreds of millions, and right now, without a clear energy framework going forward, it is hard to make with certainty those decisions that are required for Northern Ireland. Right now, the lack of policy, the lack of the framework, is definitely weakening investor confidence.

Q108 **Chair:** I do not think the Electricity Association of Ireland gave evidence to us before, so this is new to you.

Dara Lynott: No, I did not. This is my first time before your Committee.

Chair: I am wondering what your take on that might be.

Dara Lynott: Northern Ireland has a very ambitious target for renewables—it is 40%. That is only going to go in one direction as we try to meet 2050 climate targets. There are a number of decisions to be made: what technologies need to come to the fore, how that transition is going to be financed. The lack of an Executive and a clear policy is only going to hamper investment and the potential for investment in Northern Ireland.

Q109 **Jim Shannon:** I have to declare an interest, because I buy electricity from SEE in my office and at my home. That is to be recorded for the purposes of *Hansard*.

Can I ask you a few questions? First of all, in relation to Northern Ireland's electricity sector, do you feel that investment in Northern Ireland is one of those things that people and companies are encouraged to do? Do you think it could be done better?

I am also keen to get your opinion, because of your company, on the implications of Brexit in relation to the all-Ireland electricity market and the impact from the European internal energy market. Again, will Brexit make that difficult? Will it make it easier? Does it not change anything?

Stephen Wheeler: I will take the second question first, if I may. We do not know the outcome of Brexit, obviously. There is huge uncertainty there. From an energy point of view, the reality is that the electrons will continue to flow, and we need to ensure that they continue to flow in the

most efficient way possible. It was very encouraging to hear the Prime Minister talk at Mansion House about continued collaboration on energy, because as connected markets it is incredibly important we continue to collaborate from an energy point of view.

When you look at the origins of SEM, which is now 10 years old, as we move to I-SEM, it has clearly demonstrated the benefits that come from an integrated, larger-scale market. To be disconnected in any way, to increase the level of inefficiency with the connected markets, can only be a bad thing for consumers in Northern Ireland. It is really important that we ensure that collaboration is maintained, that additional tariffs, et cetera, are not added on, that the Northern Ireland market remains part of a larger market and is connected through I-SEM to the beta market here in GB, but also to the European market, which allows bigger efficiencies, because it is a small market, to drive down costs in Northern Ireland.

There have been a number of questions around where we see pricing going in Northern Ireland. Again, it is very difficult to say with any certainty where prices are going. However, being part of a bigger market will drive efficiencies and will support lower prices in the long term.

Q110 **Jim Shannon:** You would have some concerns about European generators and the cost factor for electricity in Northern Ireland. Is that right?

Stephen Wheeler: What is really important is that there are existing arrangements in place and those arrangements work. We should not change them. It is really important to continue with the existing market relationships. The second thing is to ensure we are an interconnected island, so it is incredibly important that flows continue across the interconnectors, and do so as efficiently as possible. Lastly, at the heart of this has to be protecting customers' interests, and being part of a bigger market, again, delivers scale and delivers efficiencies, and that is why it should be maintained.

Q111 **Jim Shannon:** Some of us, including me, and customers and consumers in my constituency, feel that the prices are reduced almost to get the customer, and then through a period of time seem to creep back up again. Where people switch from company to company to get the benefit of better prices, or for whatever reasons they may wish to do that, is that something you would encourage?

Stephen Wheeler: As our own company has demonstrated in Northern Ireland, competition is good for consumers. We have seen significant savings driven through Northern Ireland, with the enactment of competition. Previously it was a single market. Now there is competition, with a number of parties competing in the market, delivering cost savings for customers.

There are a lot of influences that affect pricing. We have all seen recently the impact of commodities. Only two weeks ago we saw gas prices go up almost 10 times in one day, because of shortages. There are a lot of variables and other factors that impact price, but I think we would all agree that competition is good for consumers and is good for driving down price.

Andrew Greer: One of the benefits of SEM and I-SEM has been bringing more participants into the market, both from the generation side and on the supply side. In Northern Ireland, there are at least five suppliers active in the domestic market, and six suppliers active in the commercial market. There is active competition in the gas commercial market as well. That environment has promoted competition, which ultimately consumers benefit from. Northern Ireland is, relatively speaking, a small market: 870,000 electricity consumers, 800,000 of whom are domestic. The SEM and I-SEM experience has promoted that competition.

Q112 **Mr Goodwill:** I think the point Jim is trying to make is that it seems to be the loyal customers, often older people without access to the internet, who are penalised, and it is the people who shop around who find that they get the best deal. Is that a situation that happens in Northern Ireland, where the people who think they are going to be rewarded for loyalty are actually penalised?

Andrew Greer: If you look at the particular circumstances of the Northern Ireland electricity market, you still have a regulated domestic supplier in the form of Power NI. Its tariffs are transparent, in terms of the calculations. They are approved and scrutinised by the Utility Regulator. Effectively, it sets a price for the rest of the market to have to beat. If you look at its pricing, its margin is publicly disclosable, and that contributes to a price that we as a competitor in its market have to beat. If you look at the Power NI tariffs, the regulator's scrutiny on them, the fact that the rest of the suppliers have to effectively beat them, that gives confidence to customers that they are not being exploited.

Stephen Wheeler: I take it as the nature of the market and the timing of the market. It is a relatively immature market. Competition was only opened up in the last number of years. What you see at an early stage of market development is a lot of switching on the back of price, and you will see the market moving towards more rewarding of existing customers. How do you provide rewards? That is the natural evolution of the market. The nature of the market, initially to get people to switch, is around price, but you will see reward becoming more and more prevalent within the market as it continues to mature.

Q113 **Chair:** In a similar vein, last week we heard in evidence that the success of demand-side units in the recent auction was likely to drive up electricity prices across the board. I was wondering whether you think that is accurate or not.

Stephen Wheeler: Demand side and the technology to support it are still at a very early stage. The real winner, when you look at how electricity is generated in Northern Ireland, has been onshore wind. Onshore wind now represents nearly 27% of the total electricity generated in Northern Ireland. Again, that is an upfront payment, but that is effectively driving a real sustainable source of generation. It can be statistically demonstrated that it is reducing the cost.

A previous colleague talked about the need for self-generation. If you look at both the north and the south of Ireland, we have an abundance of wind. That is really playing to our competitive advantage. When you tie back into policy, how do we continue to create the growth we have seen to date, to provide the customer protections against commodity spikes, against other macroeconomic effects that we have no control over? Driving self-generation, driving wind, has to be a key part of the policy going forward.

Q114 **Chair:** That is great. Renewables are super, and we all support them, but this has connotations right across the British Isles. If those who can are self-generating, it means that fixed costs apply to those who cannot self-generate. The point that was being made earlier on in evidence was that the people who cannot self-generate tend to be the most vulnerable, and therefore costs for them are likely to rise. Would you say that was accurate?

Dara Lynott: To take it back a bit, the goal here is to decarbonise the entire energy sector. That is the goal, and no one knows what the ultimate mix of technologies will be to attain that. Wind is the cheapest at the moment but, going back to the point of the lack of an Executive and the lack of a clear policy, certain technologies are going to need support. We do not know what the frontrunners are, so a number of bets will have to be placed on a number of technologies. Storage is looking to be one of the frontrunners, at the moment. There will definitely be a cost associated with support to technologies that will eventually get us over the line to a decarbonised energy sector.

With Brexit, the draft agreement and the stated policy objective of protecting the single energy market are welcome. Those give some assurance to investors, but the difficulty now for investors is where the Government go in terms of their support of the types of technologies that will allow for decarbonisation to happen within the timeframe set out. The ultimate timeframe for that is going to be 2050.

Q115 **Lady Hermon:** Thank you very much indeed for coming to give us evidence today. Where will I start? I am going to start with Mr Wheeler. Mr Wheeler, you referenced the Prime Minister's Mansion House speech and said that you had welcomed the Prime Minister's pledge of continued collaboration. How did that comfort you? How were you encouraged by that reference? If you would like to elaborate a little, it would be very helpful.

Stephen Wheeler: Sure. It is back to the point that a larger market will deliver ultimate benefits for customers. A stronger, interconnected market between Northern Ireland, GB and the wider Europe will deliver a larger and more efficient market. Ultimately, market efficiency will protect and put pressure on to drive down prices. When you consider putting a customer right at the heart of a wider market and how the market is set up, I believe that is the way to go. Larger markets, interconnected together, will drive efficiency. We hear the Prime Minister talk about continued collaboration. The Brexit negotiations are happening at the moment. We are an Ireland market, both north and south, and we need to retain the current market arrangements and connectivity to ensure that we are and will continue to put downward pressure on prices going forward.

Q116 **Lady Hermon:** What input have you had into that collaboration? Have you met with any of the Brexit Ministers? Have you met with any of the Ministers here to make these points to them? Have you submitted evidence?

Stephen Wheeler: SSE, as a company, has submitted evidence. Whom it has met, I cannot say. I am happy to come back and provide that information. From an Ireland point of view, yes, we have submitted evidence.

Q117 **Lady Hermon:** Do you submit evidence in your own right, as a company, or do you submit it through the Irish Government and expect the Irish Government to make representations?

Stephen Wheeler: We would make submissions as part of our own company or as part of the Electricity Association as to what we believe is required from an energy point of view. It is to ensure the market arrangements that exist continue to exist, to ensure the continued flow of power across the interconnectors and to put the customer at the heart. Those are the three priorities that we have set out in our piece around Brexit for energy.

Q118 **Lady Hermon:** Yes, and you have submitted written evidence to one of the Ministers here.

Stephen Wheeler: I would need to go and check that. I can confirm that.

Q119 **Lady Hermon:** Have you submitted evidence to and spoken with, for example, Simon Coveney?

Stephen Wheeler: I have not spoken directly to Simon Coveney, but we have met the Minister for Energy and positioned where we see the focus for energy within the Brexit negotiations.

Q120 **Lady Hermon:** Mr Lynott, I take it that, on behalf of your association, you have also made representations to the Irish Government. What would you then expect from the Irish Government?

Dara Lynott: We submitted evidence to the House of Lords inquiry into Brexit. We submitted it to the first inquiry into the Northern Ireland energy sector and, indeed, this inquiry. In terms of putting forward a paper on Brexit, the Electricity Association of Ireland has set out papers on the energy transition, which we have circulated to MEPs, the Irish Government and the British Government.

Q121 **Lady Hermon:** Are you then expecting the Irish Government to raise this at ministerial level with Brexit Ministers?

Dara Lynott: Our expectation is that the issues we see as being priority issues for our members will be taken on board by the Irish Government. Obviously, we have no control over what the Irish Government ultimately do with it, but we submitted it in the hope that some of our expectations and priorities would be taken on board.

Q122 **Lady Hermon:** Thank you very much indeed. I was very struck, in your written evidence, that you said you "are firmly committed to continuation of the single electricity market and its ongoing integration with neighbouring European markets". How exactly is that going to be achieved when the UK, which includes Northern Ireland, is going to be out of the EU and the Republic of Ireland is going to remain within the EU? How do you maintain the ongoing integration with neighbouring European markets? What has to be put in place to achieve that?

Dara Lynott: Ultimately, it comes down to the procedures and protocols that have to be put in place to integrate that market. There are a number of ways. We would love for the I-SEM to continue in all its facets, if that were possible. One of the ways is that the protocols, the grid codes, the network codes, could all be replicated on the UK side of Brexit. That would then allow for some co-ordination with the EU. For example, if the EU decides that it is going to modify that code in any way, there would be an agreement with the UK that the same modification would happen on the UK side. What would that do? It would reduce cost. If market operators have to comply with multiple codes, it adds cost. A lot of what we have been advocating for is that the UK would be part of, present at and contribute to a number of the regulatory bodies that determine the codes for the energy market. For example, with SOE and ACER, the UK would maintain a position, and that is being actively negotiated as we speak.

Q123 **Lady Hermon:** So, while the UK is going to take back control when it leaves the EU, you are expecting UK to keep in line and continue to be in line with it for energy.

Dara Lynott: The main objective is to reduce cost for customers, and one of the ways you do that is to reduce the number of rules that need to be determined. If you take it that the UK is dependent and not self-sufficient in terms of energy, and nor are Northern Ireland and the Republic of Ireland, in order to reduce the cost to consumers you need interconnection. If you look at a map of Europe and you see the

wholesale costs of electricity, France and Germany have the cheapest costs because of the level of interconnection. As you go further towards the periphery, where there is not as much interconnection, the wholesale cost increases. Another factor of cost is the amount of rules and regulations that you have to abide by. If, for example, you set up an entirely internal electricity market with its own rules, yet in order to buy and sell energy on the European market you have to comply with additional rules, and then for every interconnection there is another set of rules, it adds cost. I am not sure and I am not an expert on how the administration of this will happen, but we are hoping that the rules and regulations will be identical across the various trading partners, with the ultimate goal of reducing the cost to consumers.

Q124 **Lady Hermon:** If there were to be a dispute in this integrated system that you want to see post-Brexit, would it be the European Court of Justice that would decide?

Dara Lynott: We would point to examples. Switzerland has already signed an agreement with the EU regarding disputes around emissions trading. We feel that similar protocols can be put in place that would not require the European Court of Justice to intervene, but rather to look to some already agreed protocols, such as those between the EU and Switzerland around ETS disputes. We think that will be perfectly solvable for this case.

Q125 **Lady Hermon:** That is very interesting. Can I bring things a bit closer to home? I was very struck by the evidence given at the very beginning about the impact of the lack of the Northern Ireland Executive and the Assembly. You said that there was a lack of clear policy, and I think I am right in saying that there was a comment that it had "dented investor confidence". I am just quoting back to you what was said.

I thought this was really strange. The previous witness reminded us, if we needed any reminding—of course this Committee did not need reminding—that we have not had an energy policy in Northern Ireland since 2010. The Assembly and, sadly, the Executive collapsed and came down, and have not been functioning since January 2017, only 14 months ago. Why do we have, suddenly, this negative impact on investor confidence when we have not had an energy policy in Northern Ireland since 2010? Why is it dramatically more serious now, in the absence of an Executive?

Dara Lynott: Could I just respond briefly to that? The future is really uncertain. If you look at where we are trying to get to, which is a decarbonised energy sector, we have had huge success. On 14 March, the energy supply of the entire island of Ireland was 55% provided by wind. That is a new target. Every year we are hitting new targets, but continuing on the current path will not get us to a decarbonised energy sector. Going back to my previous point, there are many technologies that will have to be supported in order to get there. Wind will be a huge part of that, but we have to reduce and completely eliminate our reliance

on gas, coal and oil. In order to do that, there needs to be a long lead-in time for investment. Investment decisions do not happen over one, two, three, four or five months, so the types of technologies that will be in play, particularly the types of technologies around storage—and I heard Ian Luney talk about some of the investment decisions—will need active intervention by Government and a policy that stretches out to 2050. A policy that was set in 2010, I would suggest, is probably now getting to the end of its shelf life and needs to be updated in order to meet the challenge for the next 10 or 15 years.

Stephen Wheeler: You talked about the last time there was a policy. Look at the success of that policy: we are now up to 27% wind generation. If I talk about our own company, SSE, we now have over 200 people working in offices in Northern Ireland. We have built over 25% of the total of renewables on the system. But that policy has come to the end of its shelf life. As Dara says, it is now about looking forward. Where is future investment? Right now, we need clarity around where the energy direction is going. It is really important when policymakers come out and make clear policy: "We are going to target 40% renewables". It is a brave statement. That is a really important statement for investors to row in behind, to deliver and support the delivery of that.

Northern Ireland currently is stuck around 27%. It has done incredibly well to get to 27%, but how do we move the dial to get to 40% and then to grow even further? There are huge positives, and we have talked about the positive reduction in price. Even for inward investment—we have talked about the manufacturing industry in Northern Ireland—big inward investment comes and is supported by clear policy around renewables. Right now, as an investor in Northern Ireland, as a company that has made significant investment in Northern Ireland, we are calling for clarity around future energy policy, so that we can continue to support and make the correct investments.

Q126 **Lady Hermon:** Has it had a negative impact on the confidence of your company investing more in Northern Ireland?

Stephen Wheeler: Well, right now we are not building anything new.

Q127 **Lady Hermon:** That has been a decision of the company.

Stephen Wheeler: I would like to build new, but what is the policy going forward?

Q128 **Lady Hermon:** When was that decision taken by your company?

Stephen Wheeler: We have a significant windfarm in planning at the moment, Doraville. It is going to be the largest windfarm in Northern Ireland at around about 120 MW.

Q129 **Lady Hermon:** Where is that planned for?

Andrew Greer: It is in the Sperrins.

Lady Hermon: In County Tyrone.

Stephen Wheeler: It is a significant investment that is now in the planning process and has been for some time. Coming out of the planning process, if it is successful, it will support the 40% target significantly. Right now, we do not see decisions being made to support investment. You asked me when the decision was made.

Q130 **Lady Hermon:** If it comes out of planning successfully, are you telling this Committee that your company is not—

Stephen Wheeler: No, absolutely not. We have invested—

Q131 **Lady Hermon:** If you get planning permission, you will go ahead with that project.

Stephen Wheeler: It is our intention to build this windfarm.

Q132 **Lady Hermon:** Reconcile those two things. You have said that investor confidence has been dented by the absence of the Northern Ireland Assembly and the Executive. They have been gone for 14 months. Judging by the comments from the DUP given to this Committee, the prospects of having them restored are bleak this side of the summer and even perhaps this year. Can we have a firm commitment that your company will go ahead and will invest?

Stephen Wheeler: That decision will be made when it comes out of planning, subject to normal board approval, of course. But our intention, the reason we are in this business, the reason we are in Northern Ireland, is to continue investing.

Lady Hermon: I would have thought so.

Stephen Wheeler: However, in order to continue investing, we need to see certainty around policy going forward and that is what we are calling for. We are calling to work in conjunction with the Civil Service of Northern Ireland to deliver the energy policy for Northern Ireland that it requires out to 2040 and out to 2050.

Q133 **Lady Hermon:** Yes. It is a very interesting point that you have made, bearing in mind the legislation that was introduced and went through all its stages here yesterday. That is confirmation of budgets and that the Permanent Secretaries of the various Departments are going to be running the show until we get an Executive and Assembly up and running again. Presumably, you have had meetings with the relevant Permanent Secretaries.

Stephen Wheeler: Yes, we have.

Q134 **Lady Hermon:** It is not as if Northern Ireland is rudderless. We are not rudderless. Northern Ireland is being taken forward. They do not wish to be taking it forward in this manner, but Permanent Secretaries are very competent individuals and are well able to do this.

Stephen Wheeler: Lady Hermon, no one is challenging that or questioning that, just to be absolutely clear. What we are saying is the sooner we have clarity around the policy, the better for Northern Ireland. What I mean by that is, once we have policy, the different contributors can then get behind it and help deliver the policy, as has been done to this point to reach the 27% target, which is a fantastic achievement. That is what we want to continue to support, but in order to do that we need to see the policy.

Q135 **Lady Hermon:** Yes, and I am coming to an end, but I am very interested in the points that you have been making. Please correct me, but I would like to think that you are not seeking direct rule. You, your companies and your association want the restoration of the Executive, the Assembly and local Ministers making local decisions about Northern Ireland. The policy that you want is the decision that you want rather than direct rule, or is it a case of thinking, "Do you know what? We just want policy decisions and we do not mind"?

Stephen Wheeler: Lady Hermon, we are not into commenting on politics, as you are well aware. We are businesspeople trying to drive the business in Northern Ireland.

Q136 **Lady Hermon:** But do you have a preference?

Stephen Wheeler: We are asking that the energy strategy is defined so that we can continue to make the investments and continue to support the way we have done over the last 10 years.

Q137 **Lady Hermon:** Mr Greer, we have not heard your voice, so we are going to have to ask you now. You want the restoration of the Assembly and the Executive rather than direct rule.

Andrew Greer: We want decisions made. We want policy decisions made, as Stephen has already outlined, in respect of our own company. But it has wider implications, because it also sets the framework for the planning service in terms of its mindset, how it make decisions and looking at future grid connections to enable more assets to be added. However, there is also I-SEM itself. The delivery of I-SEM is continuing, and a lot of the policy evolution is a result of the SEM and moving into I-SEM. We have seen this change in the capacity remuneration mechanism, which we are discussing, but that, in the future, will provide a mechanism to incentivise new generation to come on board.

This has already been outlined in evidence. The generation of the future to support the renewables system will be more flexible; it will look at other technologies, like storage; it will look at the DSU. It will be a more evolved system. An overarching policy to move that forward and bring all arms of government along on that journey is important.

Q138 **Lady Hermon:** Are those representations and points ones that you have made to the political parties in Northern Ireland? I am not asking you to make a political decision here, but are they points that have been made

to, for example, Sinn Féin, the DUP and the other smaller parties?

Andrew Greer: Over a number of years, as a company, we have made representations to different forums, at which political representatives have been present.

Q139 **Lady Hermon:** What about in the 14 months without an Executive or the Assembly? You have given us very firm evidence about the detrimental effect because you had no policy decisions. Can I just take it that you have made representations, and you have explained the dilemma and the impact, to the political parties in Northern Ireland?

Stephen Wheeler: Yes, that is the case.

Q140 **Lady Hermon:** Have you done so in recent times, since the collapse of the Executive in January last year?

Stephen Wheeler: Yes. We continue to meet representatives from all parties.

Q141 **Lady Hermon:** What about your association?

Dara Lynott: Our primary objective over the last 12 to 18 months has concerned Brexit and the continuation of the SEM. In that context, we have made representations to both Governments and a number of political parties around that.

Q142 **Lady Hermon:** Could you identify which political parties?

Dara Lynott: I do not have the exact list. I do not want to give you the wrong steer on it, but I would be happy to provide it to the Committee.

Q143 **John Grogan:** Going back to the scenario of a really cold January, four windless days and the interconnector with Scotland falling down, should we worry at all about the security of supply, or are we pretty confident that it is a scenario that will not happen?

Andrew Greer: We have to rely on the evidence that you have already received. We have the regulator, which has given direction to the system operator. It has the expertise to look at the different demand scenarios and generation scenarios. It has put forward its view that the system can cope with a reduction in generation and capacity. I am sure its modelling took into consideration those scenarios and, particularly after the winter we have just had, when we have had some extremely cold weather, that would have been factored into its modelling. Based on the direction given by the outcome of the auctions, it believes the system can cope with those scenarios. All we can do is rely on that expertise.

Dara Lynott: The regulator has already published projections that would suggest a supply deficit in about 2021. Obviously, the north-south interconnector is going to be a very important part of reducing any deficit that applies. After the market auction, there is an application for derogation from the three-year shutdown in terms of a number of plants in Kilroot in the north and Huntstown in the south. I suppose there will

be a lot of people paying attention to that decision and how it impacts ultimately on security of supply, but we have to rely on the regulators saying that security of supply is okay.

Q144 **John Grogan:** SSE has pointed out that there is no support scheme in place at the moment for renewable energy. What would you like to see in place ideally? You referred to the planning application in response to Lady Hermon's question. Are you saying that you would need additional support for wind for that type of project to go ahead, or is it more on the storage side? What sort of support are you thinking of?

Stephen Wheeler: There are a number of technologies. To deliver large scale, the option to date has been onshore wind, and onshore wind has been a fantastic success in that regard. When you look towards 2030 or 2040, you cannot but realise the potential, which is possibly something that we are missing currently, of offshore wind. If you look at UK waters, you can already see the significant impact offshore wind is having. It is very encouraging to see the ambition of UK waters, which is now up to 30 GW by 2030. That is something that needs clear direction and vision that the supply chain can get behind to deliver.

From a Northern Ireland point of view, onshore wind should be encouraged. Offshore wind and the potential opportunities to deliver it should definitely be looked at. Then there are the other technologies that would be part of the mix, whether it is storage and other distributed generation types, but SSE feels very strongly that the real difference can be delivered through onshore and offshore.

To your point around support, different technologies require different levels of support. For onshore wind, right now, while some are being looked at on a subsidy-free basis, none are being built on the island of Ireland. Yes, prices are coming down; there is no doubt about that, but is it at a point yet where it does not require subsidies? I would argue against that, but it is a matter of time, as we see the supply chain costs coming down. Again, there is a huge opportunity. If you look at our competitive advantage, it is wind, and we should be looking to embrace that and to really deliver significant scale through onshore and offshore wind.

Andrew Greer: We should remember that, with the support mechanisms, there has been, as has already been stated this morning, a large increase in the amount of renewable generation on the system, but the capacity mechanism and the removal of some of the older, inefficient generation will also benefit consumers in terms of a reduction in cost overall. Consumers are benefiting ultimately from the evolution of the system, more decarbonisation, more renewables being brought on and then, overall, potential savings from reduction in capacity, because we have more capacity now available, so the system can be more selective in what it wants to move forward with.

Dara Lynott: Going back to the discussion earlier on, there is a queue to get on to the system in terms of wind and other technologies. Wind has been incredibly successful in Northern Ireland but, as technologies mature, the incentivisation will change and start to shift to other, newer technologies that will combine with wind in order to achieve decarbonisation into the long run. It is harking back to having a policy that looks to the future, setting the policy for how people enter and get a connection, and how over the next one, five, 10, 15 or 20 years the incentivisation will happen. There is still a backbone of generation that is needed to support wind, exactly for the situation that you suggest. When there are days where there is no wind, there will be an ongoing need for a support system for those generating plants to recoup their fixed cost, in order to allow the transition to a decarbonised energy system.

Q145 **John Grogan:** Would you say it is a fair summary then—and I have learned a lot during this session—that the 2010 policy you all agree was quite successful, but there is now a whole range of political decisions to be made by the Minister for Energy and the Executive, if it is restored? I do not expect you to choose a particular form of government, but my worry would be that, until the Executive is restored, these are big decisions to be made. It looks like the British Government will be reluctant to make those decisions, because they want to restore devolution and so on. There is a real urgency that these decisions are taken and that a policy is set for the next 10 years. Is that fair?

Stephen Wheeler: It is fair. The key element in energy infrastructure is infrastructure that is built over a long period of time and lasts for a long period of time. When you look at all the different components, the overall ambition, the overall vision and the policy that backs that up—because this is not just about building wind turbines, for example; a network has to be built to support that—it touches a lot of areas that we need to be clear about. That is what is important about it.

To your question around the support, if you look at what has worked right across the world, you can see we have moved from the previous market system to where we now have competitive auction. Technology-specific, competitive auctions appear to be the way to go. We should be looking, as part of the overall policy, the overall ambition, at support for competitive, technology-specific auctions.

Q146 **Chair:** Presumably, Mr Lynott, you are getting a good steer from the Irish Government, which stands in stark contrast to the steer you are getting north of the border at the moment.

Dara Lynott: We represent the whole island of Ireland. Our members come from north and south, so it is more a case of our members giving us a good steer of where we need to go.

Q147 **Chair:** Of course, but the point is that the criticism has been made, because of the collapse of the Executive at Stormont and the unwillingness, for whatever laudable reasons, of the Westminster

Government to get involved in devolved matters, that there is a deficit north of the border, which does not apply in all parts of the island.

Dara Lynott: Time is of the essence here. 2050 is the target for decarbonisation. Before that there will be electric cars, and internal combustion engines will start to come off the road from 2025 and through the 2030s. Time moves on, so the sooner we can get clear policy from the Northern Ireland Executive, the better it is for investors and for moving that transition quickly towards decarbonisation.

Q148 **Mr Goodwill:** Following on from the previous lines of questioning, it seems clear that neither the civil servants who are minding the shop at the moment nor, I suspect, if there were a period of direct rule, UK Ministers would make these big strategic decisions that would affect future energy policy and future investment decisions. Going back to the planning application for this new windfarm, have civil servants given any indication that they see this as a decision that would be above the bar of the business-as-usual work they are doing? Are they in a position to make a decision on that particular one?

Stephen Wheeler: In relation to the specific planning permission, it is going through a planning process. We are working through a process. It has not got to the final decision yet. That process is ongoing and we are working through it with the different parties in that regard.

Q149 **Mr Goodwill:** It is not taking longer than you would expect. Are there problems associated with that?

Stephen Wheeler: We would always like to see it come out more quickly. It has been in planning now for quite a significant time, but that is the nature of building large-scale projects, particularly strategic energy projects, in Northern Ireland. We are working with all the different constituents to, hopefully, deliver what we believe is the right decision. That is going through a process that we are obviously partaking in.

Q150 **Mr Goodwill:** Is it the case that the longer we are in this period of no political direction, the more civil servants will have to start taking ever more important decisions?

Stephen Wheeler: We are already seeing that. Two very major decisions have been made recently by civil servants and, again, you would have to encourage that. The north-south interconnector, as you have heard, is an incredibly strategically important piece of infrastructure and we are very encouraged to see that, on both sides of the border, that now has planning. The next step is how quickly it can be built, because there will be significant benefit. We have talked about the number, whether it is £20 million or £25 million, but there are significant imperfection costs that exist right now. Apart from the security of supply outlook, if this was built, those costs would be removed straight away. For consumer protection and consumer interest, north and south, it is an incredibly important piece of infrastructure in that regard.

We welcome the decisions that have been made and at the appropriate time, when our project comes through the planning process, we would welcome the decision being made as is required at the time.

Q151 **Mr Goodwill:** Is there a danger that a lack of political agreement will result in more expensive energy or less green energy for the people in Northern Ireland?

Stephen Wheeler: They are big decisions. We really should not forget the fact that, while 27% is an incredible achievement, which should be applauded, and SEM has had a huge part to play in that, it is about what needs to be done next. Is it 40%? Is it 50%? To make the investment to deliver that takes time. This does not happen overnight; it does not happen over six months. This is a long-term capital programme that is required. As my colleague Andrew has said, it is not just about the decision to make a project go; you need the network infrastructure and the right regulatory policy behind that. These are big decisions that need clear political leadership, and that is what we are looking for.

Q152 **Mr Goodwill:** That sounds very much like a yes. It is going to be more expensive and less likely to be green.

Stephen Wheeler: Supporting large infrastructure projects of this nature is not going to be more expensive. In the first instance, it is the right thing to do. It comes back to our indigenous resource, and that is predominantly wind. Wind energy now technologically, from a price point of view, has got to a point where it is very competitive with fossil fuel technology and. Over the next 10 years, we need to make sure that Northern Ireland does not miss that opportunity. That is what we are calling for.

Chair: Gentlemen, thank you very much indeed for that very insightful, very thoughtful session. It will certainly help greatly to inform our follow up report when we produce it quickly. Thank you very much indeed.