

Ref:

From: Jenny Pyper
Energy Division

17 November 2004

To: Private Office

cc see below

ALL-ISLAND ENERGY MARKET BILATERAL – PRESS BRIEFING

1. Further to my submission of 16 November I attach the following additional briefing
 - ANNEX E - Draft Press Release (as cleared by DETI Press Office, awaiting final clearance by DCMNR Press Office)
 - ANNEX H - Q&A material on All-island Energy Market Development Framework, north-south electricity interconnector, and NI Renewables Obligation (currently out to consultation so issues may be raised).
2. Also attached below are the media handling plans for the event from Press Office. These are subject to final agreement between DETI and DCMNR Press Offices.

JENNY PYPER

Head of Energy Division

(Ext: 29577)

Distribution List:

Bruce Robinson
Wilfie Hamilton
David McCune
Peter Hughes
Anne Martin/Michael Henderson

Media to be invited (to be confirmed with DCMNR)
BBC - James Kerr
UTV - Jamie Delaney
Downbeat
Citybeat
Irish News
News Letter
Belfast Telegraph
RTE
TV3
Irish Times
Irish Independent
Irish Daily Star

PRESS OFFICE, 17 November 2004

Min.
Bilateral
22/11/04

MEDIA HANDLING PLAN FOR ALL-ISLAND ENERGY BI-LATERAL

The forthcoming energy bi-lateral is likely to generate significant media interest. Given the short amount of time available from Ministers, tight media handling will be essential to maximise the impact of this important event. There may be requests for live interviews to coincide with BBC, UTV, RTE lunchtime news bulletins.

Timings

1. Friday 19 November -

Invite selected media for pre-brief with key officials at Netherleigh.
Telephone other media with details of event. Information on attendees not to be divulged.

2. Day of Event – The Innovation Centre, N I Science Park

12.30 – 13.15 - Board Room - Meeting between Ministers, Regulators and officials.

Media allowed access to meeting room for silent shots of first few minutes of meeting.

Media move to Seminar Room 2.

13.15 - Meeting concludes.

Official photographs to be taken of Ministers signing Framework. Photographer to be booked by Press Office.

Press Release agreed for general release to media. Joint release containing quotes from both Ministers, issued in Belfast on DETI headed paper and in Dublin on DCMNR headed paper.

Ministers move to Seminar Room 2 for media interviews.

13.30 - Ministers to be available for television interviews with BBC Northern Ireland for live lunchtime bulletin if required.

Other media interviews as required.

13.55 - Ministers depart

14.00 - One-to-one interviews with regulators.

Media to be invited (to be confirmed with DCMNR)

BBC - James Kerr

RTE

UTV – Jamie Delargy

TV3

Downtown

Irish times

Citybeat

Irish Independent

Irish News

Irish Daily Star

News Letter

Belfast Telegraph

PRESS OFFICE, 17 November 2004

Draft Press Release

22 November 2004

**ALL-ISLAND ENERGY MARKET AND SECOND NORTH – SOUTH
ELECTRICITY INTERCONNECTOR MOVE A STEP CLOSER**

Proposals for an all-island energy market and the development of a second north-south electricity interconnector will be good news for all business and domestic consumers, Enterprise, Trade and Investment Minister, Barry Gardiner MP, said today.

Mr Gardiner was speaking following a meeting with his Irish counterpart, Noel Dempsey TD, Minister for Communications, Marine and Natural Resources.

Following the meeting, the two Ministers jointly launched the All-island Energy Market Development Framework. It provides the strategic blueprint for creation of an all-island energy market. The Framework was produced in consultation with the Regulatory Authorities, industry and other stakeholders. It outlines the policy context and benefits of an all-island energy market and identifies the short to medium term priorities. A high-level Development Programme setting out goals and timeframes over the next few years is also included.

The Regulatory Authorities now have the important task of driving this project forward and we would encourage them to do this using whatever resources they consider necessary.

Ministers Dempsey and Gardiner also endorsed the Regulatory Authorities' plans for a second North-South electricity interconnector. This will form a crucial part in ensuring there is a robust infrastructure in place that will meet the needs of the market and enhance security of supply for consumers.

Mr Gardiner said; **"Minister Dempsey and I have committed our Governments to working towards the creation of an all-island energy market that will deliver practical results which are mutually beneficial. This is part of the wider European drive to integrate energy markets. We are pleased that the Regulatory Authorities and industry have responded so positively to making this happen".**

"We also welcome the Regulatory Authorities' recommendation that a second electricity interconnector should be built between Northern Ireland and the Republic. They have made a sound strategic and economic case for this project. We have therefore endorsed their plans to work with the industry to identify the route, size and cost of the proposed interconnector".

In welcoming the publication of the All-island Energy Market Development Framework, Mr Dempsey said; "The Framework sets out an agreed work programme for the next few years and lays the foundation for an all-island energy market. The overall aim is a unified market that will contribute to a more secure and cost-efficient service for all consumers".

In relation to the interconnector, Mr Dempsey added; "The proposed second North-South interconnector will provide increased system security and reliability. It will be a positive step toward further developing competition and will facilitate the development of a single electricity market. We will then have a very robust all-island electricity network that will be able to deliver long-term benefits to both economies. It is a good example of how both jurisdictions gain from practical cross-border co-operation on energy".

The Ministers invited the Regulators and Transmission System Operators to meet soon to determine ownership and income arrangements of a second interconnector.

Finally, both Ministers took the opportunity to thank all who contributed to the consultation process, culminating in the publication today of the All-island Energy Market Development Framework.

Notes for Editors

The All-island Energy Market Development Framework is the outcome of consultation with the energy sector and has been well received. A copy of the Framework can be found on the DETI website at: www.energy.detini.gov.uk

Details of plans by NIAER and CER for the Single Electricity Market and related all-island energy matters can be found on: www.allislandproject.org

- Lowering transaction costs for generators and suppliers – the set of trading rules.
- Reducing risks for investment and trading.

[BACKGROUND NOTE - Some initial projections by ESB (not independently tested) have indicated that electricity prices could reduce by some 3% or £42m pa (a NPV of some £210m over 10 years) due to savings in areas such as fuel and capacity savings, market opening, harmonisation of systems and management bodies.]

Q2 Why should we incur the cost of an all-island market?

A The Northern Ireland markets for gas and electricity are too small to be truly competitive or to encourage significant new investment. It is accepted that, in a rapidly changing energy environment, neither NI nor the Republic can stand alone with regards to energy provision.

We will be much better placed in an all-island market to bring significant long-term benefits to Northern Ireland customers – reduced prices, improved choice and improved quality and reliability of service.

The Strategic Energy Framework, published in June 2004, gave a commitment to cost proof all government actions in the energy arena – including those aimed at developing an all-island energy market.

It is accepted policy at a European level that these benefits can be best achieved through the integration of markets – regionally and Europe-wide.

ALL-ISLAND ENERGY MARKET BILATERAL PRESS BRIEFING

DRAFT QUESTIONS AND ANSWERS

(1) ALL-ISLAND ENERGY MARKET

Q1 What will the all-island market mean for the average consumer?

A The single market will bring long-term benefits to consumers. It will improve security and diversity of supply, introduce greater competition between generators and suppliers and widen customers' choice of supplier. It will reduce prices as producers and suppliers become more efficient and competitive.

The larger single market will ultimately lower prices for customers by:

- Encouraging more players into the market – bringing more competition.
- Bringing economies of scale and scope – a key driver of cost efficiency.
- Leading to less duplication of centralised activities and reduced costs – a single Regulator, TSO.
- Lowering transaction costs for generators and suppliers – one set of trading rules.
- Reducing risks for investment and trading.

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[**BACKGROUND NOTE** - A rough indicator of some basic savings that could accrue from integration can be seen from OFGEM's view that integration of the England / Wales markets with the Scottish market could save Scottish customers some £95m pa. Given that the combined GB market is some nine times bigger than the all-island market (by peak demand) the savings for the all-island market would be of the order of £11m pa.]

Q3 If investment is needed will the customer not end up paying through increased electricity and gas prices?

A The cost of delivering an all-island market (e.g. interconnection) while substantial in its own right will be small when considered as a percentage of the overall price of a unit of electricity. It will be repaid many times over from the benefits that accrue.

Investment is needed. For example, there is the need to modernise and introduce control and management systems to handle increased all-island trading.

There are development costs to improve the electricity infrastructure, making it more robust and reliable and able to cope with increased trading.

Investment is needed to establish the gas network so that it is able to supply the growing areas of demand, north and south.

Some of these development costs would have to be incurred, irrespective of whether or not an all-island market was created.

Costs will need to be recovered from commercial and domestic consumers over the lifetime of the assets, but the benefits will outweigh these one-off costs.

Q4 Will an all-island market give greater customer choice?

A Yes - in line with EU requirements - by July 2007 there will be open competition for all commercial and domestic customers.

Domestic customers will be able to choose from at least two public electricity suppliers predominantly focussed on them – NIE and ESB, with the expectation that other players such as BGE will enter the market.

Commercial and industrial customers will have at least four suppliers focussed on their needs – Energia, ESBIE, BGE and Airtricity.

The larger market will encourage other suppliers in the longer term.

Q5 Will the all-island market improve quality of supply?

A Yes. One of the key benefits of a larger market will be increased security of supply for all customers. We will gain from integrated transmission system planning to a common standard.

It will be more robust – reducing the current exposure of the two smaller systems to failure of one element in the chain.

It will have the potential to cater for a more diverse primary fuel supply mix – reducing reliance on one source e.g. gas.

Q6 Will the all-island market enhance economic development – for example in the border areas to the west?

A Yes. Improving the electricity infrastructure in the border areas and expanding the gas network will create opportunities for promoting economic development. For example, increasing opportunities for electricity dependent industry to locate there.

From the energy management perspective the border will be invisible.

Q7 Will the all-island market address the problem of dominance?

A The issue of dominance by one or two main players (NIE / ESB) has been of concern. We want to see open and transparent competition. One of the key priorities in the Framework is therefore the question of market dominance.

The Regulatory Authorities are tackling the issue as part of the development of all-island electricity market trading arrangements.

[PASS QUESTION TO NOEL DEMPSEY re. ESB DOMINANCE]

Creating a larger marketplace will erode ESB dominance in the south to some 40% compared to its projected 60% share of the Republic's 2006 market.

The all-island market should be capable of meeting around $\frac{3}{4}$ of peak demand without any contribution from ESB owned power plants.

The ownership of 'price setting' plant will also be more widely dispersed.

Q8 How will an all-island market meet EU policy directives?

A The creation of an all-island market is an integral part of the EU's drive to create single Internal Markets in electricity and gas.

NI and the Republic are in the forefront of the work to develop regional markets that, in due course, will involve closer links with the GB and wider European markets.

Both Governments will work together wherever possible to ensure that complementary measures are put in place so that EU targets are met.

(2) NORTH SOUTH INTERCONNECTOR

Q1 Why do we need a second interconnector – is the present one inadequate?

A A second interconnector is needed to ensure the long-term success of an open and competitive all-island market.

Current interconnection relies on one 275kV line and two 110kV lines in the west. Capacity constraints, especially in the Republic limit power transfers.

Studies by the Transmission System Operators (NIE/SONI and ESB NG) have concluded that - even if present network constraints were alleviated through reinforcements, power transfer between NI and RoI over the existing lines would still have to be limited due to the danger of system separation.

This is a major concern for both Governments. Loss of the 275kV line would lead to the 110kV lines being automatically tripped, causing a major disruption in supply between NI and RoI.

The EU has an internal electricity market target of 10% of system demand being available through interconnection. In the all-island context this equates to 600MW, which cannot be provided by the current interconnection.

Q2 How much will a second line cost?

The cost of building a second interconnector will be significant. Initial estimates are that it could cost some £70m - £100m and could take up to 7-10 years to construct, depending on the route and speed of planning consents.

The two networks would also need to be reinforced, especially in the South. The estimated cost to each jurisdiction is some £14M in NI and £34-£68m in RoI. The investment would result in an increase in total transfer capacity from 300MW to some 500 to 700MW.

Q3 Who will pay for it?

A The Regulatory Authorities will be expected to ensure that the project is financed efficiently with effective price control mechanisms. This is in line with their duty of care to protect the interests of electricity consumers with regard to price and quality of service.

Neither DETI nor DCMNR has given a commitment to support the project through public funding.

Current plans are that construction costs would be shared and recovered over the 40-year life of the line (through a mechanism such as transmission use of system charges).

Q4 Who will own it?

A Ownership and income arrangements will be determined by the two Regulatory Authorities in consultation with the Transmission System Operators.

The Authorities will also ensure that the project is based on sound efficient investment principles.

Q5 How will the consumer benefit?

A Customers, both industrial and domestic will reap the benefits of a second line. A key benefit will be greater system stability and avoidance of system separation, as well as improved security and diversity of supply.

Building a second 275kV line would bring:

- greater competition opportunities;
- greater flexibility and more choice in sourcing electricity
- greater control of dominance;
- reduction in need for new capacity through sharing of existing reserves;
- reduced fuel costs through the use of lowest cost generators; and
- reduction in fuel costs through increased capacity.

[NOTE - TSOs have estimated that increased capacity should lead to fuel savings of £2.8m to £12.5m pa - 0.43% to 1.21% of total annual fuel bill (lowest estimate based on planned Wales-Ireland interconnector.)]

North South Dimension

In December 2003, DCMNR issued a consultation document on options for future renewable energy policy targets and programmes aimed at helping ROI meet its target of 13.2% electricity consumption from renewable sources by 2010 as contained in the 2001 EC Directive (2001/77/EC). In particular, the document considered the options for support schemes including a Renewables Obligation. The outcome of the Consultation has yet to be disclosed.

There have been suggestions that the South may opt for a Renewables Obligation although this has not been confirmed. If it is decided to introduce a Renewables Obligation, it may be possible – even beneficial – to trade ROCs on a British Isles basis.

The eligibility within the NIRO of generating stations in the Republic supplying electricity to NI has been raised as an issue (see Annex G of the Bialateral briefing).

(3) NORTHERN IRELAND RENEWABLES OBLIGATION

Line to Take:

- NI is committed to the introduction of a Renewables Obligation (NIRO) from 1 April 2005 subject to completion of the necessary consultation and legislative processes.
- The NIRO will be the main plank to support our 12% Strategic Energy Framework target for the proportion of our electricity that will come from indigenous renewable energy sources by 2012.
- The NIRO will operate alongside existing GB Obligations in a UK-wide market for Renewable Obligation Certificates (ROCs); this will help both ensure viability and minimise impact on consumer prices.

Background

A Statutory Consultation is currently underway on the introduction of a Renewables Obligation (NIRO) in Northern Ireland from 1 April 2005; the closing date for responses is 10 December 2004. This Consultation follows on from a short Preliminary Consultation that was undertaken in June/July of this year to highlight the key issues involved.

The NIRO will place a legal obligation on NI electricity suppliers to confirm, through a system of Renewables Obligation Certificates (ROCs), that they have supplied a specified proportion of electricity from renewable sources or to make a buy-out payment for each unit of shortfall.

It is intended that the NIRO will operate in tandem with the existing GB Obligations in the larger UK-wide market for ROCs. This larger market will ensure the viability of the NIRO and to help minimise its impact on electricity prices in NI.

North South Dimension

In December 2003, DCMNR issued a consultation document on options for future renewable energy policy targets and programmes aimed at helping RoI meet its target of 13.2% electricity consumption from renewable sources by 2010 as contained in the 2001 EC Directive (2001/77/EC). In particular, the document considered the options for support schemes including a Renewables Obligation.

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Questions and Answers

Q1. Does development of the NIRO in advance of a decision by the Republic on its support mechanism run counter to the aim of achieving an all-island energy market?

A Northern Ireland has a commitment to contribute to the overall UK renewables targets. Additionally, the establishment of the NIRO trading on a UK-wide basis with the existing GB Obligations has been critical both in terms of ensuring a viable Obligation and in limiting the impact of the initiative on NI electricity prices. This does not counter the all-island aim but presents a degree of stability which can aid the formulation of policy and support schemes in ROI.

Q2. Is a Renewables Obligation necessary in Northern Ireland, given the encouraging pace of renewables development to date?

A Development of renewables capacity in NI has, indeed, been very encouraging – it has doubled over the past 2 years. However, the commercial decisions to proceed with much of this development have been influenced by the expectation of a Renewables Obligation being introduced in NI. Moreover, with a 12% target for indigenous renewables generation by 2012, it is important that we have the mechanisms in place to maintain, and even increase, the momentum of recent development.

Q3. Why is it proposed that generating stations located South of the border but directly and exclusively supplying the NI grid will not be eligible to receive ROCs for their output?

A This is primarily due to constitutional constraints and market development priorities (see Bilateral ROCs Background Note and Line to Take)

Q4. Is the exclusion from the NIRO of generating stations located South of the border but directly and exclusively supplying the NI grid not contrary to the aim for an all-island energy market?

A There are many facets to an all-island approach and our All-Island Development Framework – it identifies, among others, the pursuit of complementary support mechanisms as a goal within the renewables area.

Clearly, this will have relevance to the unique situation being experienced by these cross-border developments. In the meantime the legislative, jurisdictional and operation complexities are such that, for the present at least, such generation cannot be regarded as eligible under the NIRO.

ALL-ISLAND ENERGY MARKET - CHRONOLOGY

- 1999 - Development of all-island energy market identified as a key recommendation in Vision 2010 paper.
- Dec. 1999 Sir Reg Empey MLA (DETI) and Mary O'Rourke T.D. (Public Enterprise) met to discuss development of all-island energy market that would deliver mutual economic and social benefits and encourage complementary regulatory and market initiatives. Joint Ministerial Steering Group to be established.
- April 2002 Three upgraded electricity interconnectors linking two grids opened by both Ministers.
- July 2003 Ian Pearson MP and Dermot Ahern T.D. met to review progress e.g. studies by CER and NIAER into differing features of both electricity markets. Agreed further progress to be made in six priority areas:
- cross-border trading in electricity;
 - electricity system interaction and integration;
 - all-island gas network;
 - co-ordination of regulatory activities;
 - climate change, emissions and renewable energy; and
 - energy efficiency policies.
- Established Joint Steering Group (DETI, DCMNR, NIAER, CER) to oversee progress across those six areas.
- Sept 2003 First meeting of JSG. Monthly meetings thereafter.
- Dec 2003 Pearson and Ahern met to review progress. Further work across priority areas agreed e.g. joint electricity transmission planning, harmonisation of gas tariff principles, harmonisation of electricity and gas financial years, and arrangements for Energy Industry Forum.
- Mar 2004 Energy Industry Forum, Drogheda. Agreement to issue a consultative paper outlining what is meant by an all-island energy market and what needs to be done to achieve that goal.
- May 2004 Gardiner and Ahern met to review progress and consider draft of joint paper on all-island energy market.
- June 2004 Strategic Energy Framework for NI launched, with all-island energy market as a key component.
- Consultation and discussions on All-island Development Framework launched by Ministers at Energy Ireland Conference
- Aug 2004 NIAER and CER announce Joint Memorandum of Understanding on development of Single Wholesale Electricity Market. Other areas covered include joint transmission planning and north south electricity interconnection, as well as renewable energy.