

Northern Ireland Energy Forum 2004

Tuesday 23rd November 2004 Stormont Hotel, Belfast

FORUM PROGRAMME

08.30	Registration & Coffee
09.00	Chairman's Introduction: Sean Neeson MLA
09.30	Northern Ireland Energy: Looking Forward
	<i>The Role of Natural Gas in Meeting Northern Ireland's Future Energy Needs</i> Peter Dixon Chief Executive, PHOENIX NATURAL GAS
	<i>An Alternative Model for Energy Infrastructure Ownership</i> David Montgomery TEAM NORTHERN IRELAND
	<i>Northern Ireland Energy Policy in an International Context</i> Sue Harrison Head of European Energy, DEPARTMENT OF TRADE & INDUSTRY
	Questions & Answers
10.50	Morning Coffee
11.10	Developing a Sustainable Energy Sector
	<i>Climate Change and Its Impact on Businesses</i> David Vincent Technology Director, THE CARBON TRUST
	<i>The Role of Renewable Energy Creating in a Sustainable Energy Mix</i> Douglas McIlldoon Chairman, NORTHERN IRELAND AUTHORITY FOR ENERGY REGULATION
	<i>Addressing Climate Change: What Needs to Be Done!</i> Michael Meacher MP
	<i>Sustainable Energy Services: Evolving the Energy Services Company</i> Stephen McCully Managing Director, NORTHERN IRELAND ELECTRICITY SUPPLY
	Questions & Answers
12.45	Conference Lunch Sponsored by ESB Independent Energy
14.00	Ministerial Address: Barry Gardiner MP, Minister for Enterprise, Trade & Investment
14.30	Energy Market and Infrastructure Development
	<i>Competition in Electricity: Making it Happen!</i> Sean O'Loughlin ESB INDEPENDENT ENERGY
	<i>The New Market: Challenge or Opportunity?</i> John Mawhinney Head of Sales and Marketing, ENERGIA
	<i>Often Forgotten!: The Role of Oil in Northern Ireland's Energy Mix</i> David Blevings Executive Director, NORTHERN IRELAND OIL FEDERATION
	<i>Integrating the Irish Gas Pipeline Infrastructure</i> John Barry Project Director, BORD GÁIS EIREANN
	Questions & Answers
16.45	Conference Close

Energy
Forum
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DRAFT SPEECH TO NI ENERGY FORUM – 23 NOVEMBER 2004

Ladies and Gentlemen, good afternoon. I am delighted to be here.

When I was a student I had the good fortune to study in the United States, having won a John F Kennedy scholarship. The scholarship programme was a legacy of his Presidency that has benefited many foreign students.

I am reminded that JFK, while speaking to a gathering of Nobel prize winners, said:

‘I think this is the most extraordinary collection of talent and human knowledge that has ever been gathered together...with the possible exception of when Thomas Jefferson dined alone.’

It might just be little OTT if I said that this applied to the present gathering. I would, however, vigorously assert that here - in this room, and within the companies, universities and organisations working in the energy sector in Northern Ireland, there is a wealth of world-class talent and expertise. We have the opportunity to harness that talent over the coming years to make Northern Ireland one of the best and most exciting places to be for anyone working within the world energy sector.

It has been my pleasure to meet many who are here today – you have enthusiastically enlightened me on the more arcane aspects of energy since I became responsible for Energy – and shown me the possibilities

that lie ahead in areas such as power generation from wind and wave, waste recycling and energy efficiency. You have also alerted me to the challenges that still need to be tackled.

I do not therefore need to remind you that we live in challenging global times.

Economic activity in Northern Ireland, GB and elsewhere - particularly in the Far East - continues to grow and that is to be welcomed. But it is accompanied –inevitably - by rapidly growing worldwide consumption of resources, especially finite fossil fuels. Economic prosperity is, in turn, feeding the social demand for electricity and gas.

Instability in the Middle East and elsewhere has brought into sharp focus the increasing need to ensure security of energy supplies - not least, because we have seen the price of oil hit \$55 a barrel. I can remember when the price of a pint hit £1 (about 1981) and to my dismay as a student it never came down again! Let us hope that oil prices continue to drop to a more manageable and stable price level (of around \$30 a barrel) very shortly.

Global energy changes, in turn, put pressures on local costs, prices and reliability and we are all very conscious of what oil prices are doing to manufacturing costs and to petrol.

It is true that alternative fuel sources are opening up exciting prospects for growth in sustainable energy, but beyond wind, the economics of renewables are still marginal.

I am, however, excited by the latest news that the major industrial nations, including the EU, are close to agreeing where to build the world's first nuclear fusion reactor in a project that would replicate how the sun generates power from hydrogen. France and Japan are the front-runners for that investment. But the investment needed is colossal. And the promise of unlimited, secure and environmentally safe energy from fusion – that is also commercially viable, still lies many years ahead.

I am also encouraged by the news earlier this month that Russia has put its stamp of approval on the Kyoto Protocol on climate change. Although I have been disappointed by the reaction of the United States to the Protocol, the action by Russia was essential to the agreement and more than 100 countries are now signed up. Ratification by Russia has meant that by early next year all signatories must start making cuts to reduce emissions of six key greenhouse gases (to an average of 5.2% below 1990 levels by 2012). This is a very positive step in the right direction.

but only a step in what is a challenging journey. *

You will I know have considered this issue earlier today. I believe my parliamentary and party colleague Michael Meacher shared some provocative views on the cautious approach being taken by governments and the large steps that still need to be made in order to tackle climate change!

* 07976 911862 .

The fact is that these are global challenges that face us all. We live in an increasingly inter-dependent world - a world where the outcome of actions in one part of the globe can be highly unpredictable for the rest of the world if we do not plan adequately for the future. Clearly, although the energy agenda is on a global scale, we must develop a local response.

It is therefore appropriate that today's conference is looking at where Northern Ireland stands with regard to energy provision and how we are developing local policy to sustain and improve that provision in the context of the wider national and international picture.

My job is to ensure that energy policy in Northern Ireland continues to meet the needs of its citizens while the NI Assembly is in suspension. So, I want to talk to you about what we are doing, as a Government, to meet the challenges facing energy.

Strategic Energy Framework for Northern Ireland

Northern Ireland is making real progress on a number of fronts to create a more sustainable and competitive energy industry.

I published the Strategic Energy Framework for Northern Ireland in the summer. This recognises the inter-dependency of modern economic life and the fact that we live in a world where no country or region can stand-alone when it comes to meeting its energy needs.

It builds on existing achievements and takes account of the all-island, UK and the wider EU energy agenda, which is having an increasingly strong influence, especially now that our electricity and gas markets are no longer isolated.

The Framework identifies 4 goals to underpin this objective. These are:

- reducing energy costs;
- building competitive energy markets;
- protecting our future by enhancing renewables and sustainability; and
- securing a reliable energy supply.

The high cost of energy in Northern Ireland compared to GB and the Republic is not a new issue. The implications in terms of our industrial and business competitiveness are well known and it contributes to Northern Ireland's very real problem of fuel poverty.

Fuel poverty is a serious problem that my colleague John Spellar and the Department of Social Development have been working to address, alongside my own Department. I am pleased that he has today announced the new Fuel Poverty Strategy for Northern Ireland and I will play my part to ensure that energy policy continues to address the needs of those consumers who are least able to meet the costs of electricity and gas.

At a wider level our work on a range of energy policy issues is being taken forward against the backdrop of the need to achieve economically and socially acceptable energy costs in Northern Ireland. This informs all our energy decisions. Indeed the Strategic Energy Framework makes clear that all our actions in the energy arena must be cost-proofed whether it is the implementation of a NI Renewables Obligation and consideration of proposals to mutualise the SNIP pipeline, to action on electricity prices. We are still working to deliver progress on the proposed government intervention on electricity prices as we recognise the very real impact of high prices here relative to other regions on business competitiveness as well as on domestic consumers. This remains a priority work area.

Policy must also take account of the EU dimension and the wide range of Energy Directives coming out of Brussels. They can have a very significant impact on local policy and implementation. You will have heard from Sue Harrison of DTI this morning about the need to address the Directives in the timeframes set by Brussels. This means a lot of hard work to ensure we do not incur penalties for failing to meet those deadlines.

Work on building a competitive energy market is a particular challenge for a marketplace as small as Northern Ireland but we are in line to achieve full market opening for both electricity and gas by the EU deadline of July 2007. Close co-operation with our neighbours in the Republic will be particularly important to successful market opening as we move towards an all-island market.

Open and transparent competition and the benefits it offers relies on strong and effective consumer protection to give customers the information they need to take advantage of the greater choice available. The General Consumer Council for Northern Ireland is a strong voice for the Northern Ireland energy consumer and its close relationship with NIAER on energy issues will help to translate the mechanics of market opening into tangible benefits for consumers. I believe consumer protection is an area where the Republic can learn from us about how to raise the voice of the consumer. It is one of the issues that will be tackled as part of the development of the all-island market.

Sustainable Energy

If we are to develop effective local responses to the national and international pressures that confront us we have to look to the future. This involves placing sustainable energy at the centre of our long-term energy agenda.

There are many opportunities, as well as challenges, around the corner for Northern Ireland in taking forward the wider sustainable development agenda. Issues such as waste recycling, sustainable agriculture, all aspects of bio-diversity, fishing and, of course, energy all have important contributions to make.

The UK has taken pole position in setting demanding targets for reducing greenhouse gas emissions and we are on track to meet our Kyoto commitments. The latest audit confirmed that greenhouse gas emissions in 2003 were 14% below 1990 levels. Whilst this is a

commendable achievement we have more to achieve to meet our commitment to reduce carbon dioxide emissions by 20% by 2010.

The key to success in this area lies in thinking globally and acting locally. We all have a role to play, particularly the business community - which must seize the opportunities presented by sustainable development.

There have been encouraging achievements in these areas in Northern Ireland over the past two years. For instance:

- the number of tentative applications from renewable energy generators to Northern Ireland Electricity for connection to the electricity system has increased by 400% to reach 1000 megawatts and actual capacity on the system now stands at just over 100 megawatts;
- on the demand side, supply from renewable sources has doubled to reach 4% and the number of domestic consumers demanding their energy from renewable sources increased by 600%. Every school, library and most hospitals have now made the switch to renewable energy; and
- advanced research projects in oilseed rape, willow growing and bioremediation* are now in place.

[bioremediation uses liquid organic waste to feed willow plantations]*

- And I hope to have some positive news in the next few weeks on a further significant funding package of several million euros that will aim to achieve the rapid deployment of renewable energy and

energy efficiency projects in the cross border region through the Interreg Programme.

All of this work to develop renewables is being completed against the backdrop of tightening controls over waste disposal and the requirements of the EU's Water Directive. This will bring many challenges to small businesses, particularly those in the food processing and farming sectors.

These challenges do not need to be threatening. Applying emerging renewable energy technologies in rural areas offers real potential for the profitable use of waste streams for generation of electricity and heat for local consumption. Diversification of this type both strengthens the local economy and supports the supply of electricity in the more rural parts of Northern Ireland.

Energy Efficiency

How we use energy offers real opportunities for managing demand through smarter thinking – yet energy efficiency still has to be tackled in a way that will significantly reduce our demand for electricity. And we will be challenged by the EU to meet increasingly stringent efficiency targets over the coming years.

Energy efficiency and conservation could provide the greatest potential for responding to the challenge of climate change. Much good work has already started through programmes sponsored by the Carbon Trust and

through the innovative use of the Northern Ireland Energy Efficiency Levy.

Nationally, the Carbon Trust is helping the business community to address its energy use and encourage low carbon innovation through practical efficiency measures. These are expected to save almost 8 million tonnes of carbon emissions from businesses by 2010 - this equates to more than 10% of their emissions in 2000.

Indeed, the Carbon Trust is able to demonstrate that the rate of return on energy efficiency in the industrial and commercial sector in Northern Ireland could be as high as £3 for every £1 invested and I was therefore delighted to provide an extra £1.6m this year for the Carbon Trust's work in pursuing this energy efficiency dividend.

I am, however, determined to see even further significant improvements in energy efficiency right across the spectrum in Northern Ireland during the next 10 years, particularly in the industrial and commercial sector where the case for driving down energy costs through minimising its use - and thereby improving competitiveness - is all the more compelling.

My colleague, Ian Pearson, also demonstrated leadership in this area when he recently set a target for the Northern Ireland Government Estate to reduce the energy intensity of its buildings by 15% by 2010. This is supported by the fact that the Government Estate in Northern Ireland already purchases around 30% of its electricity requirements from renewable energy sources.

All-island Energy Market Development Framework

A key component of the Government's energy policy is development of an all-island energy market.

I think we all accept that Northern Ireland cannot stand alone in a rapidly changing energy environment. And that we have a much better chance of success if we work with the Republic as well as with the rest of the UK - cooperating as good next-door neighbours to deliver practical results that benefit us both.

This means grasping the opportunities to optimise the benefits of competition within a larger marketplace - leading to greater efficiencies and cost effectiveness for energy generators and suppliers.

It means creating a more attractive environment for private investment – this is critical to modernisation of the energy infrastructure and to the development of new technologies.

It ultimately means better choices and prices for consumers, as well as reinforcing our public service obligations - especially for vulnerable customers suffering from fuel poverty. These twin goals – choices and prices, are fundamental to our pursuit of an all-island market.

I was therefore very happy to announce yesterday, along with Noel Dempsey, the All Island Strategic Development Framework.

The Framework provides a strategic structure for further collaborative action by industry, regulatory authorities and the two Governments in moving towards the goal - identifying what needs to be done, by whom and by when.

The aim is to encourage the development of open, competitive, sustainable and reliable markets in electricity and natural gas on the island of Ireland at least cost. It will operate in the context of the EU internal energy market and should deliver long-term economic and social benefits that are mutually advantageous to Northern Ireland and the Republic. In such a market neither suppliers nor customers should be conscious of a border between the two jurisdictions when doing business.

It has been prepared in collaboration with the two Regulatory Authorities who will be responsible for its implementation. The draft version was very positively received by the energy sector, north and south. And I thank all who participated for your very helpful contributions.

Those of you who have not yet seen the Framework can find it on the websites of my Department, DCMNR and the two Regulatory Authorities.

I believe that the Development Framework is a very clear demonstration that both Governments are firmly committed to the development of an island-wide energy market and I want to draw to a close by saying a bit more about its implications.

All-island energy market

A market is where people trade because it is in their mutual interest to do so. Both Governments believe that it is evident from the extent to which the market has already developed that it is in the best interests of consumers in both parts of Ireland that they should be able to have their energy requirements met by suppliers located in any part of the island - delivering their products from any part of the island or indeed from outside the island.

Markets do however need to be carefully and painstakingly constructed – often over many years and perfect markets do not come about without a lot of effort. Indeed it is quite striking that it is only in the last few years of Europe's half century of journeying towards economic integration that the work of establishing a single energy market has begun to make any sort of progress at all.

By contrast the work of integrating the two Irish energy markets has been remarkably rapid and remarkably successful. Only ten years ago the two markets were completely separate. There was no physical connection between the electricity networks and Northern Ireland did not even have a gas industry. Ten years on the situation is rather different.

We have electricity interconnection now, which has been beneficial to both systems over recent years, although the primary flow has been North to South.

In addition the Bord Gais gas pipeline to the North West of Northern Ireland has now been completed and preparations for the South North pipeline are well underway. We cannot yet talk of an all-island gas market but in two years time, thanks to the close co-operation between the two administrations, the gas networks in the north and the south will be physically connected. And gas will flow from the Republic into Northern Ireland - reversing the direction of electricity flows. Once that happens the scope for a single market on the island for gas becomes a real possibility and it is vital that arrangements are put in place to ensure that those who want to buy and sell gas are not frustrated by regulatory or market structure obstacles.

But there is much more to do. We are making good progress in ensuring that gas can get to market, but we have different challenges with electricity. For example, although interconnection exists cross border flows are restricted, especially in the South. While trade can take place to some extent through 'super positioning' - essentially a glorified mechanism for swaps - each jurisdiction has to be capable of producing more or less the amount of electricity it needs. There is also the situation of low cost production being under-utilised in one part of the island while expensive capacity is being pressed into service in another.

These are obvious and costly inefficiencies and they can and should be addressed in the context of an all-island energy market.

The two Regulatory Authorities have been very positive in their approach to the all-island challenge by agreeing, in July, a Memorandum of

Understanding on electricity, under which they are collaborating to develop new all-island market trading arrangements and improve transmission constraints.

North South Electricity Interconnector

There is now general acceptance that one of the next steps that should be taken to create an island-wide electricity market is to improve the network links by the construction of more north south transmission. This needs to go hand-in-hand with joined-up transmission planning so that over the next few years a single transmission network comes into being.

What we need to move the all-island market forward is more investment in the infrastructure – and investment in this industry has a long lead-in time.

For that reason I am greatly encouraged by the action being taken by the two Regulatory Authorities to encourage this. At yesterday's meeting with Noel Dempsey, along with publication of the All-island Energy Market Framework, we also endorsed the Regulatory Authorities' decision to proceed with the detailed planning of a second cross border electricity interconnector - providing it is based on sound investment principles.

A second interconnector has the potential to significantly improve security of supply and system stability while enhancing development of the electricity market. The benefits will include greater competition opportunities, enhanced control of dominance, reduced need for new

capacity through the sharing of existing resources, and reduced fuel costs.

The Regulators will now work with the Transmission System Operators to determine the route, size and cost of the interconnector; ensure efficient investment criteria are met and agree ownership and income arrangements. Both Noel Dempsey and I will expect the Regulators to report to us on progress, through the Joint Steering Group, so that core issues such as investment, ownership and pricing are addressed in the best interests of consumers.

Conclusion

The measures that we are taking, especially publication of the Framework and our support for the Regulatory Authorities' work on a second electricity interconnector will, I trust, send out a very strong signal to all concerned that we are serious about driving this work forward. What we are seeking to accomplish is the creation of robust, sustainable single markets for electricity and natural gas that will bring practical, long-term economic and social benefits to consumers.

We have already accomplished a lot but the final goal will only be achieved through the combined effort of everyone concerned, plus a good dose of inspiration during the difficult times. It is a task that many other countries and regions in the European Union have yet to act upon in a serious way.

I thank you all for your contributions so far and I leave you with two quotes that reflect where we stand today.

(Annex D of Bipolar Brief)

The first harks back to my time in the States but points to the need to be receptive to the opportunities that the future holds for us. It is another one from JFK who, a few months before he was assassinated, said:

‘Change is the law of life. And those who look only to the past or the present are certain to miss the future.’

The second recognises the hard work that lies ahead for all of us. It is from George Mitchell who, during the peace talks in 1998 said:

‘Nobody ever said it would be easy’.

Both Governments have a shared interest in more competitive energy markets, reduced energy costs and prices, and improved reliability of supply.

I believe we now have a sound basis on which to develop world-class energy provision in Northern Ireland. I also believe we have, in abundance, that spirit of hard work and co-operation, mixed with the inspiration and innovation that is needed for success. And I look forward to continuing to play my part.

Thank you.

Reaffirm Northern Ireland's commitment to all-island energy market - hard and complex work ahead for all stakeholders and especially regulatory authorities.

- Given ongoing business and political lobbying against high energy costs in Northern Ireland - it remains important to demonstrate that North/South collaboration and integration of energy systems will bring practical results that are mutually beneficial.
- The developing all-island business in electricity, gas and renewables must be encouraged in the context of both North-South and wider UK-EU dimensions.
- The challenge is to:

MINISTER'S INTRODUCTORY REMARKS

- Welcome Noel Dempsey and others to Belfast to discuss energy co-operation.
- Congratulate Tom Reeves on recent appointment as Chairperson of the Commission for Energy Regulation (CER) and look forward to meeting fellow Commissioners.
- Both Governments have a shared interest in more competitive energy markets, reduced energy costs and prices, and improved reliability of supply.
- Appreciated earlier impetus given to the all-island agenda by Dermot Ahern and positive collaboration between the Departments and Regulatory Authorities.
- Reaffirm Northern Ireland's commitment to all-island energy market – hard and complex work ahead for all stakeholders and especially regulatory authorities.
- Given ongoing business and political lobbying against high energy costs in Northern Ireland - it remains important to demonstrate that North/South collaboration and integration of energy systems will bring practical results that are mutually beneficial.
- The developing all-island business in electricity, gas and renewables must be encouraged in the context of both North-South and wider UK-EU dimensions.
- **The challenge** is to:

- translate the agreed policy framework and work programme into practical, concerted action;
 - focus on the immediate priorities – infrastructure, trading arrangements, dominance and the sustainable agenda;
 - maintain collaborative working arrangements at all levels – need to ensure Departments, Regulators and industry work together to achieve benefits.
- Encouraged by progress over past 15 months and look forward to working together to meet the challenges that lie ahead.