Northern Ireland Assembly

COMMITTEE FOR ENTERPRISE, TRADE AND INVESTMENT

OFFICIAL REPORT (Hansard)

Scoping for a New Energy Bill

13 October 2011

NORTHERN IRELAND ASSEMBLY

COMMITTEE FOR ENTERPRISE, TRADE AND INVESTMENT

Scoping for a New Energy Bill

13 October 2011

Members present for all or part of the proceedings:
Mr Alban Maginness (Chairperson)
Mr Daithí McKay (Deputy Chairperson)
Mr Steven Agnew
Mr Gordon Dunne
Mr Phil Flanagan
Mr Mike Nesbitt
Mr Robin Newton

Witnesses:

Mr Trevor McBriar	)	Department of Enterprise, Trade and Investment
Ms Olivia Martin	)	

The Chairperson:

You are very welcome here today. Ms Martin is very familiar to the Committee.

Ms Olivia Martin (Department of Enterprise, Trade and Investment):

Thanks very much. Today's meeting arises because the head of our energy division, Fiona Hepper, wrote to the Committee Clerk to alert the Committee, giving as much notice as possible, to the fact that the Department is scoping issues for a new energy Bill. The director's letter listed the issues being considered, and those came from an initial sweep around the Department and the authority. The people responsible for the areas concerned are working to flesh out the initial thoughts into proper policy papers. During the process, some issues may stay in, some may drop out and others may come up. We can give you more detail on the firmer and more finalised policy papers when the Minister has approved them. At this stage, we just wanted to bring the notion of an energy Bill to the Committee, to let you know that we are working on that and to hear the Committee's thoughts.

We think that we will be ready to go out for consultation in spring next year. Trevor and I are responsible for co-ordinating the Bill and some of its policy areas, but many such areas are the responsibility of our colleagues. So, unfortunately, we are not expert in every single area, but we will do our best to answer the Committee's questions about the areas listed.

The Chairperson:

Thank you very much, Ms Martin. Mr McBriar, you may come in at any stage. I note that a very important part of the Bill will be the provision for a feed-in tariff (FIT), which, of course, is not provided for in current legislation here. If such a power were introduced, where would the cost lie? Would the cost be met by consumers in Northern Ireland, or would it be spread across the UK, as, indeed, the cost of the Northern Ireland renewables obligation (NIRO) is at the moment?

Ms Martin:

Luckily for me, I am no longer responsible for renewable electricity. However, I understand that the rationale for a new feed-in tariff came about as result of the Department of Energy and Climate Change's (DECC) electricity market reform, whereby it is getting rid of renewables obligations from 2017 onwards. The arrangement whereby we had capped the cost to Northern Ireland consumers and spread the cost across the UK would no longer apply if we kept the NIRO on its own. So my colleagues are negotiating with DECC to determine to what extent the cost could be socialised across the UK, in the way that it is currently under the NIRO, if we entered the feed-in tariff proposed under the electricity market reform. That is a fundamental consideration for us in deciding the future form of the feed-in tariff, because Northern Ireland benefits from a lot of renewable resource. Given that the electricity and carbon emission savings are for the good of the whole of the UK, we do not think it right that Northern Ireland consumers alone should pay for that. My colleagues are working with DECC to see how that can best be done under any new arrangements.

The Chairperson:

In any event, you need that power, whether or not it is exercised. You need the legislative basis for bringing that about.

Ms Martin:

Yes, that is right. With the renewables obligations coming to an end, my colleagues have worked with consultants on what the best form of feed-in tariff will be for the future. There is a slight question over the timing of our Bill and when the feed-in tariff powers will be needed. That is because the key factors in incentivising renewable electricity are, of course, providing a stable environment for investment and providing certainty to the investors who will build wind farms or whatever. Given that the lead-in time to planning projects can be so long, investors need that certainty as soon as possible. Therefore, it is important that whatever legislation provides for feed-in tariffs is brought in as soon as possible. It may be that the energy Bill will be slightly too late for that, and that is an issue. Shortly, my colleagues will put out a consultation paper on the NIRO, which will address some of those issues, and you will see that coming through in the next few weeks.

The Chairperson:

Your briefing paper mentions a study commissioned by the Department of Enterprise, Trade and Investment (DETI) on the need for an energy supplier obligation for energy efficiency. You indicate that energy suppliers were divided on the issue. Are you aware of the reasons for those divisions?

Ms Martin:

Currently, voluntary agreements are in place, and our assessment is that those are not as effective as they might be. It is fair to say that, generally, companies do not want to be made to do something that might impose a cost on them. That is probably why they have mixed feelings about that possibility. At this stage, we are only exploring the possibility, and one of the key reasons for our doing so is that a European proposal for an energy efficiency directive was published in June. The proposal mentions making an energy supplier obligation mandatory for member states, so we feel that we have to explore that issue properly.

The Chairperson:

So that is being driven by Europe?

Ms Martin:

It is being driven partly by Europe, which is an additional reason for our looking at it. We were concerned that the voluntary agreements did not provide as much coverage of the domestic sector as they might. We thought that we needed to review the current system and consider all the different options, such as the green deal in GB and the way that the issue is being handled in the South, where voluntary, but, in reality, mandatory, agreements for suppliers are in place. That includes examining how we can build on existing provision in Northern Ireland to provide a better way of incentivising energy efficiency provision.

The Chairperson:

Would that obligation add an extra cost on to the price of electricity?

Ms Martin:

It could. If the obligation were to apply, we would want it to apply not only to electricity. We would want it to extend across fuels to include oil, which is one of the key areas in which there is currently no provision for energy efficiency. Given that 70% of people in Northern Ireland use oil, perhaps such a provision is necessary.

The Chairperson:

It could apply to electricity, gas, oil or any other type of fuel.

Ms Martin:

There is a possibility that it could apply to solid fuel, but that would be quite difficult to administer. A key consideration is that it could bring an extra cost to consumers, so it needs a lot of careful thought before we would even think about imposing it.

The Chairperson:

Given the burden of fuel prices that consumers have to carry, you need to think exceptionally carefully. You heard our earlier discussion on the green new deal.

Ms Martin:

That is right. One option is to oblige the companies to provide the energy efficiency or it could be done through the loan system, the government grant. I do not want to give too much of a commentary on what was said. I understand the need for continuity of funding. However, you will know that the public purse is very tight at the moment, and the money has to come from somewhere. We need to consider longer-term funding that does not have the stop-start quality that can destroy the public trust in, and knowledge of, schemes.

Mr Nesbitt:

My question is also about the feed-in tariff. I must declare upfront that, as the owner of a wind turbine, I am currently in receipt of renewables obligations.

What potential do you see for microgeneration and for photovoltaic (PV) solar energy generation specifically? As I understand it, in the rest of the UK, big companies such as Carillion plc and ABC Electricity are recording returns of 10% to 12% on their investment, which is extremely attractive in the current climate. Householders are simply allowed to install the equipment on the roof, which means free energy for them on the basis that they allow the company to feed back into the system any energy that they do not use.

Ms Martin:

When GB introduced the small-scale feed-in tariff, we considered whether we should go down the same route in Northern Ireland. Instead, we increased the tariffs under the NIRO, which was a quicker and easier way of introducing enhanced incentives for microgeneration. We did not increase them to the same extent as in GB because we felt that they were not sufficient value for consumers' money. It is consumers who pay for the feed-in tariff of the NIRO rates.

Under the electricity market reform, the NIRO's ceasing to work, together with the other renewable obligations in GB, might mean introducing a feed-in tariff with contract for difference (CFD), as is proposed in GB. However, we are not sure that that would be appropriate for small-scale generators because it is quite a complex mechanism. It would probably be appropriate only for companies with the resource to manage that type of mechanism. In Northern Ireland, therefore, we might also need a small-scale FIT to deal with microgeneration.

Mr Nesbitt:

Did you say that photovoltaics works in England, Scotland and Wales but would not work in Northern Ireland?

Ms Martin:

No, I did not say that. Under the NIRO, photovoltaics get a ROC (renewable obligation certificate) rate of 4 ROCs per megawatt hour. The question is: what do we do in the future, when the NIRO goes? It is likely that we will need a small-scale feed-in tariff for microgeneration. The rate will depend on a number of factors, and there will, undoubtedly, be a consultation in the future about the rates under any new feed-in tariffs.

The Chairperson:

Is the feed-in tariff in Britain for microgeneration?

Ms Martin:

Currently, the FIT is for five megawatts and under, but GB will also introduce a feed-in tariff for all generation above that level to replace the renewables obligation.

Mr Nesbitt:

Is there a market for some big private sector companies to replicate here what has been happening elsewhere in the UK?

Ms Martin:

The companies to which you referred have benefitted from very generous rates in GB.

Mr Nesbitt:

Are those more generous than you would consider?

Ms Martin:

Luckily, I am no longer responsible for renewable electricity, so I shall not comment.

Mr Nesbitt:

I think that you just did.

Ms Martin:

PV is the most expensive technology, and, therefore, it takes a lot to make it economically viable. The question is whether that is the best use of consumers' money. PV is expensive, has a very long return rate and is less efficient at converting the renewable source — in this case, sunlight —

into electricity than other forms of renewable energy. When you have a small pot of money, you have to consider what is the best way to spend it. PV has its place, but I am not sure that the equivalent of nine ROCs represents value for money for the consumer. However, I am speaking slightly beyond my remit.

Mr Agnew:

On the issue of ROCs and the feed-in tariff, what is proposed? Are we going to retain ROCs until 2017? You mentioned that that is when they will be removed in GB. My understanding is that the level of ROCs that we provide will be reviewed.

I will make one other, connected point. I met a couple of people from the renewable industries yesterday. There is a sense among them that the feed-in tariff would actually benefit current fossil fuel suppliers. They feel that it incentivises fossil fuel suppliers to move to renewable energy but damages those who already provide renewable energy. I could not fully get my head round why that was. What is your sense of who are the winners and losers?

Ms Martin:

Goodness. That would require a little bit of crystal-ball gazing because we do not have a scheme yet. Without knowing the shape of a scheme, I cannot say who will win or lose. However, the government's main aim is to provide a stable investment environment, even during the transition between the NIRO and whatever will replace it. For someone who is looking at it now, it might take six years to build a wind farm or whatever. You need to know as early as possible what you will get, what the rates are, and so forth. I do not really understand what your colleagues were saying about it benefiting current fossil fuel suppliers. However, if you find out more about that, we will be happy to look at it.

Mr Agnew:

I intend to look into it.

Ms Martin:

I think it would depend on the rates.

As I understand it, we will retain the NIRO until 2017. Consultation will come out from the Department very shortly on how that will work. The NIRO will then be extended until 2037 so that, when it closes to new entrants in 2017, the new entrants will get the whole 20 years of support.

The banding review is about to go out for consultation. The way that the NIRO is set up is that the legislation provides for, I think, three- or four-yearly banding reviews. The idea is that, as technologies mature, they become cheaper and do not need to be subsidised as heavily. The proposed new bands will go out for consultation for people to give their views on whether it is appropriate that they remain until 2017.

Mr Agnew:

The Department has a policy to support expansion of the gas network. Will that be looked at in the proposed Bill? Is there any possibility of that being reviewed as a policy?

Ms Martin:

I need to be careful what I say, because we have been looking at that issue. What I can say is that the Department has a duty to promote an efficient and economic gas industry, or whatever the exact wording is. However, we also have a duty under the renewable energy directive to promote renewables. The introduction of the renewable heat incentive is a de facto promotion of renewable heat. If you incentivise something, you promote it.

There is a tension that we need to look at, and Fiona has reflected it to the Committee before. Gas is, of course, a lower carbon-emitting fossil fuel. There could still be advantages in rolling it out in the short to medium term. There is a fine balance to be struck. Looking at the very long term to 2050 and decarbonisation, I agree that there are issues about maintaining that support for the gas industry forever. However, it is about how we deal with that in the short to medium term.

Mr Agnew:

Even in the short term, it was made clear in respect of the renewable heat incentive that the Department, because of its statutory duty, cannot and will not move people from gas to renewable energy or at least incentivise them to move.

Ms Martin:

It might not make sense when 70% of people use oil. You would get a much greater saving from people who use oil moving to renewable energy than you would from people who use gas moving to renewable energy. It depends what your aim is. If the aim is to reduce carbon emissions, targeting people who use oil makes a lot of sense.

Mr Dunne:

We had the Consumer Council in last week. Home heating oil is a big issue. Where could you have an input to try to increase transparency in regulation of oil? After all, about 70% of our homes in Northern Ireland are heated by oil, so it is a major issue.

Ms Martin:

As I understand it, the Office of Fair Trading is carrying out a review of the oil industry in Northern Ireland. I do not know a lot about that review; maybe I should have boned up on it before coming here. I understand that it is examining issues such as transparency and profits, whether those profits are unreasonable, and whether there are any elements of unfair competition, or whatever the right phrase would be. We will need to see what comes out of that review and whether there is a need to do anything. The oil industry, at the distribution level, is very competitive. There are lots of distribution companies.

Mr Dunne:

I understand that there is still quite a variance in prices. We were told last week that the cost of 900 litres can vary by up to £50-odd in the greater Belfast area.

Ms Martin:

That is surely an issue of consumer choice and shopping around. If a company makes a decision to price its oil at that level and to be more competitive or less competitive, because there is a choice, the argument would be that there is enough competition for consumers to shop around and get the best deal. The problem is that the price of oil in the supply chain is extremely expensive. There is not a lot that any legislation here could do about that.

The Chairperson:

Is your thinking that there will there be provision in the proposed Bill for trying to get greater transparency on the price of domestic fuel oil?

Ms Martin:

No. That is the short answer.

The Chairperson:

If that does become an issue as a result of the investigation into oil pricing, could such a provision be made?

Ms Martin:

I am not sure whether it would be an energy responsibility or a point of competition law. I do not know enough about it to say. We can certainly consider it, and it may be useful to see what the Office of Fair Trading says before —

The Chairperson:

The Office of Fair Trading is going to brief the Committee on 27 October. Perhaps we can ask its representatives about that. You have given a very fair and open answer to the Committee.

Mr Dunne:

Do you feel that you have no role in this matter at the moment?

Ms Martin:

We do not have any statutory powers in relation to oil. Our existing statutory powers relate only to electricity and gas, and those that we have taken in the renewable heat incentive (RHI) legislation, but those are specifically for that incentive; we do not even have a general power for renewable heat at the moment.

Mr Flanagan:

It is ridiculous that we are discussing scoping for a new energy Bill only to be told that the Department has no statutory responsibility for regulating home heating oil. That is what we are trying to push for. We need to look at the potential for that.

The Chairperson:

That is the current legal position, Mr Flanagan.

Mr Flanagan:

I understand that, but there is a certain level of irony there. I want to tease out the potential for regulation, not just of home heating oil but petrol and diesel prices. There is an awful amount of competition in the market, and we understand that. However, let us look at diesel prices. The cost of a barrel of crude oil reached the high of $200. That is what we are faced with in relation to peak diesel and petrol prices. Oil sits today at $111 a barrel, yet the price of diesel has not gone down at all, and it is still at an all-time high, or very near to it. There needs to be greater transparency about where the prices are being set; not so much about competition between firms that operate here, but where the wholesale price comes from and what it is that pushes up the price. That is where the scope for regulation comes from. That is what I would encourage you to look at. Instead of regulating competition, you should be trying to get some transparency on the total price of those fuels.

Ms Martin:

Obviously, Northern Ireland can only legislate for what happens within its boundaries. The buying and selling of oil at wholesale level further back in the supply chain does not happen in Northern Ireland. The distributors do not buy it in Northern Ireland; they buy it from oil-producing countries. I would be open to suggestions, but I cannot see how Northern Ireland could affect that process. We can only act within our boundaries.

The Chairperson:

OK. Thank you very much, Ms Martin and Mr McBriar. That was a very useful briefing. This is ongoing work, which we will to return in the near future.