

Sent by email to: elec.marketreforms@decc.gsi.gov.uk

Electricity Market Reform Project
Department of Energy & Climate Change
4th Floor Area E
3 Whitehall Place
London
SW1A 2AW

10 March 2011

Dear Sirs

**Request for Responses on the DECC Consultation dated December 2010 on
*Electricity Market Reform***

arc21 is grateful for the opportunity to respond to your consultation paper on Electricity Market Reform and enclose our response document.

Although we appreciate that energy policy in respect of Northern Ireland is a fully devolved matter, we recognise the significance of the potential impact of the proposed changes to support mechanisms, in particular on low carbon technologies, in Northern Ireland. We consider it critical that the impact of the new arrangements on Northern Ireland be recognised and addressed in any solution proposed.

In this regard we note your intention to work closely with your devolved counterparts, and therefore we have copied our response to your consultation to DETI in Northern Ireland.

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**Department of Energy and Climate Change (“DECC”) Electricity Market Reform
Consultation Document (the “Consultation”)**

**Response by arc21
10 March 2011**

1. Introduction

- 1.1 arc21 is a collaborative legal public sector entity embracing eleven Councils located along the Eastern Region of Northern Ireland. arc21 is primarily responsible for activities associated with the production, ongoing development and implementation of a statutory Waste Management Plan within the Eastern Region Area. Part of the Plan addresses the identification of sites suitable for developing infrastructure and facilities for recycling material from waste and recovering energy so as to reduce Northern Ireland's reliance on landfill as a means of waste disposal.
- 1.2 arc21 is grateful for the opportunity to respond to this Consultation Paper. Although we note that energy policy in respect of Northern Ireland is fully devolved, we recognise the significance of the impact of the proposed changes to support mechanisms in particular on low carbon technologies in Northern Ireland. We consider it critical that the impact of the new arrangements on Northern Ireland be recognised and addressed in any solution proposed. In this regard we note your intention to work closely with your devolved counterparts, and we have copied our comments to DETI in Northern Ireland.
- 1.3 We note that the achievement by Northern Ireland of renewables targets will inevitably contribute to the achievement of the overall UK carbon reduction and renewables targets. The UK will benefit, not only by Northern Ireland's achievement of its „own“ targets, but where these targets are exceeded, the physical interconnection between the GB and Northern Ireland systems will mean that energy from Northern Ireland's renewable sources can also be consumed by customers in England and Wales. We strongly advocate that a holistic view be taken of the impacts of this consultation in a UK context.
- 1.4 Given that the paper is (respectfully) not drafted with Northern Ireland generators in mind, we do not consider that the direct questions raised in the Consultation Paper address matters of most concern to us. We have set out below our views in relation to Energy from Waste (“EfW”) as a low carbon technology and the proposed introduction of a Feed-in-Tariff regime.

2. Energy from Waste as a Low Carbon Technology

- 2.1 We consider that EfW, as part of an integrated waste management solution, provides a valuable contribution to the achievement of renewables (and wider environmental) targets. Like other generators using energy from renewable sources, EfW requires significant up front capital expenditure, with lower, ongoing operating costs than other fossil fuelled technologies. The availability of long term, predictable renewable support is a key factor in determining the bankability of an EfW investment.
- 2.2 We consider that any new support mechanism introduced should recognise the importance of the contribution made by EfW to the achievement of UK renewable and wider environmental targets¹ over the coming years. This should be considered

¹ Including under the Landfill Directive.

not only in establishing the criteria for qualification for low carbon support, but also in the context of an assessment of the level of support offered. In this regard, we note that irrespective of the mechanism chosen, the price for any feed in tariff should be based on an administrative assessment of the specific risks and costs associated with a given technology and should be technology specific.

- 2.3 We would also note that, aside from the benefits provided by EfW as a low carbon technology, there is also a security of supply benefit insofar as EfW is an indigenously fuelled non-intermittent source of low carbon energy. In this regard we support DECC's recognition that:

“As the UK progresses in decarbonising the electricity sector, the Government will need to ensure that electricity supplies continue to be secure.”

We consider that EfW technology can contribute to the achievement of that dual goal.

3. Feed In Tariffs

- 3.1 We welcome DECC's intention to “provide more certainty on the revenues for low-carbon generation and make clean energy investment more attractive”. In the particular context of the arc21 project we consider that certainty as to electricity revenues would contribute to the achievement of a sustainable long term outcome for the citizens of Northern Ireland.

- 3.2 The Consultation seeks the views of interested parties as to which form of Feed in Tariff (“FIT”) mechanism should be introduced in England and Wales, having regard to the above objectives. We note that the extent to which any form of FIT mechanism will deliver additional certainty and investment incentives will also be a function of a number of consideration such as:

- (a) Counterparty Risk - who will the generator contract with?
- (b) Price Setting - how will the reference price be determined?
- (c) Contract Allocation -How contracts be allocated?

We consider these issues to be just as important as the selection of an overall mechanism. In the context of Northern Ireland generators, we would add a further, significant query as to how the mechanism is proposed to dovetail with the structure of the existing „All Island' wholesale electricity market between Northern Ireland and Ireland, the Single Electricity Market (“SEM”).

- 3.3 In this regard, we consider that of the options proposed, the Fixed FIT or the CFD FIT would clearly provide the most certainty to generators as it guarantees a fixed price for generation. However, of these options, we consider that the CFD FIT may be preferable as, under this model, generators would continue to „participate” in the market. This is particularly pertinent in Northern Ireland where there is a statutory obligation on generators (save in particular circumstances) to sell power directly to the SEM pool. Any selection of a FIT option should have regard to implementation constraints imposed by the existing market structure in Northern Ireland. The ease of implementation and, at a basic level, the access to the mechanism is a key factor in attracting sponsors of low carbon projects.

3.4 We note that the Premium FIT proposal also provides a benefit insofar as it (like the RO) provides a reliable income stream for low carbon generators while also preserving market based incentives for the generators. Given the similarities between this mechanism and the existing RO mechanism, we consider that this may also operate well with the SEM.

4. **Assessment of Proposals in Northern Ireland Context**

4.1 We are strongly of the view that any mechanism considered must have regard to the impacts on Northern Ireland generators and consumers. Support for low carbon technologies will ultimately go to the achievement of RES/emissions targets that are set at a UK level. Consequently the rules proposed should also seek to secure the optimal incentives for low carbon investment at a UK level. We would contend that changes to mechanisms operating in England and Wales should not be viewed in isolation.

4.2 It should be recognised and acknowledged at the outset and any model proposed will impact directly on Northern Ireland generators and that any change made to renewables supports in England and Wales will be a significant determinant of future policy in Northern Ireland.² As such, any new model proposed must be analysed not only in the context of BETTA, but also in the context of the operation of the „All-Island“ Single Electricity Market.

4.3 Finally, leaving aside the obvious synergies at a Member State level, we would also note the move towards regional integration (in the first instance at the level of the FUI Region), as being a further consideration for DECC in ensuring that any support mechanism introduced is not considered to limit the basis for market integration. On this basis, we would favour the implementation of the Premium or CFD FIT models as being closer to a market based solution.

arc21
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² At its simplest, the discontinuation of the RO in England and Wales can be expected to reduce the market for ROCs (which have, to date, been transferable to GB) with consequent impacts on the value of NIROCs.

