Gaelectric Holdings Plc.

Response Paper to:

Consultation on the closure of the Northern Ireland Renewables Obligation to new onshore wind in 2016

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Public

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1 INTRODUCTION

Gaelectric Holdings Plc ("Gaelectric") welcomes the opportunity to respond to the Department of Enterprise, Trade and Investments ("DETI") consultation on the closure of the Northern Ireland Renewables Obligation ("NIRO") to new onshore wind in 2016. As one of the largest developers in Northern Ireland ("NI"), we find ourselves greatly impacted by the proposed decisions and the general uncertainty in the NI renewable sector. Currently Gaelectric operate 56MW of wind in Northern Ireland with a further 67.5 MW in construction and 65 MW in advanced development/planning. We therefore have considerable interest in the outcome of this consultation and future discussions regarding the NI renewables sector.

Gaelectric have previously raised concern with the decisions within UK energy policy and the effect that these policy decisions will have in NI. We are disappointed to see that the decision by UK government on the 18th June to close the Renewables Obligation to new onshore wind in 2016[1] has been mirrored in NI. This directly contradicts comments by Minister Bell on the same date to reassure the NI industry that the NIRO would remain unaffected[2].

We are particularly concerned at the level of investment uncertainty currently in NI. This has been precipitated by recent publications on the NIRO and further exacerbated by a lack of information on a follow up scheme to the NIRO. The resulting impact is such that investment into projects has stalled given the apparent risk that projects which have been subject to significant investment will be stranded with no route to market.

In relation to the proposals set out in this consultation paper, we understand that these are the result of intensive discussions between the Department of Energy and Climate Change ("DECC") and DETI regarding the position of NI wind, and the need to reflect the NI specific landscape in proposals. This is reflected in the split cut off dates for the closure, both of which are extended from the DECC deadlines. We commend DETI for their work in this regard. Notwithstanding this, we believe more needs to be done ***to ensure Northern Ireland is on a level playing field*** with our Great Britain ("GB") counterparts.

With this in mind, Gaelectric's response to the consultation is premised on creating a level playing field whilst also ensuring certainty of investment such that development progress does not suffer a further hiatus.

To preface our comments, it is worth noting the following important differences between the GB and NI systems with regard to grid applications:

- In GB, developers can apply for grid at ***any point*** in the development cycle,
- In NI, developers were ***prohibited*** from applying for grid without prior planning consent until 12th August (at which time a notice was sent to developers advising them of a change to policy)

[1] https://www.gov.uk/government/speeches/ending-new-subsidies-for-onshore-wind
[2] https://www.detini.gov.uk/news/bell-reassures-ni-onshore-wind-industry

In relation to specific developments regarding the early closure of Renewable Obligations for onshore wind in GB, we make the following arguments:

1. **Investment Certainty Decision**

We wish to see the recent Energy Bill amendments allowing a ***9 month extension for eligible projects***[3] which have been subject to delays in investment, extended to NI. Gaelectric believe this is appropriate as NI developments are subject to the same risk as those in GB given the comparable delay in consultation on the closure of the NIRO. The development of NI wind also faces similar regulatory risk as GB developments given the uncertain impact that the Energy Bill's progression through the UK parliament will have on NIRO policy.

2. **Planning Flexibility Decision**

Furthermore, DECC has decided to provide a degree of ***flexibility to developments whose planning status was in appeals at the 18th June, or where they were delayed in receiving a planning decision*** (which should have been received on or before 18th June). This flexibility should be extended to Northern Ireland with specific consideration for grid connections also.

In relation to this, it is clear that in Northern Ireland the process for applying for a grid application is different to that of a GB project. It is therefore wholly inappropriate to apply the same criteria in Northern Ireland as is applied in Great Britain. In GB, a project can apply for a grid connection at any time during the development process and it is therefore particularly unusual for a project to be advanced in planning without having a grid connection. In NI however, the earliest under which a project could apply for grid before receipt of planning was the 12th August 2015 as per NIE announcement.

This variation between both systems must therefore be recognised in order to create a level playing field for NI projects. We contend that the flexibility provided to GB projects in respect of planning decisions which were due by the relevant cut-off date should be extended to Northern Ireland. In order to ensure NI projects operate on a level playing field however, we believe that such projects should have made a grid application by 30th September 2015, with 90 days to receive a grid offer subject to NIE complying with their licence conditions to do so.

3. **Addressing the Cost of the NIRO to consumers**

In relation to the cost of renewables in Northern Ireland, and more specifically the cost of the NIRO, we wish to take the opportunity to highlight our concerns with the analysis provided. DETI indicated a cost of £5/household of a non-socialised NIRO (on the basis of 70-100MW of support from the 18th June 2015).

This cost does not factor into consideration the macro-economic impact of supporting these projects, and indeed renewables more generally. A high degree of renewable penetration is anticipated to have circa. £150m of benefit across the lifetime of the investment according to Ricardo AEA assessments.

[3] https://www.gov.uk/government/news/best-deal-for-bill-payers-and-investors-as-subsidies-for-onshore-wind-end

Furthermore, the assessment showed that renewables would have the effect of minimising wholesale costs by 14% in the period 2013-2020.

A report by Biggar economics[4] into the value of onshore wind in NI outlined an investment of £1.18m/MW into the Northern Ireland economy over development, construction and O&M stage.

In 2014 alone, the same report indicates that Total Direct and Supply Chain Economic Impact for NI was £61.5m for development, construction and operation and maintenance of NI onshore wind projects.

Given the above, Gaelectric urge DETI to consider the benefits of ensuring NI onshore wind is treated on a level playing field to our GB counterparts, and in so doing, ensuring clear benefit to the NI economy, and by extension the NI consumer.

4. EU Legislation re; Treatment of Technologies

Gaelectric believe that the treatment of onshore wind in comparison to other technologies within the NIRO could be contrary to EU legislation in respect of discrimination. Specifically, the Renewable Energy Directive (2009/28/EC), Article 13.1(d) states;

"Member States shall, in particular, take the appropriate steps to ensure that:

Rules governing authorisation, certification and licensing are objective, transparent, proportionate, and do not discriminate between applicants and take fully into account the particularities of individual renewable energy technologies;"

Furthermore, Article 107(1) of the Treaty on the Functioning of the European Union (TFEU), states;

"Save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market".

We believe this merits further consideration of the effect of the discrepancy between the treatment of onshore wind and other technologies.

[4] http://www.ni-rig.org/wp-content/uploads/2012/07/FINAL-WEB-NIRIG-REPORT.pdf

1.1 Gaelectric Summary Position

To ensure a level playing field between GB and NI, Gaelectric is calling for the following;

- Extension into Northern Ireland of the amendment to the Energy Bill in GB which extends the delivery date for eligible projects who were unable to secure finance impacted by investment uncertainty by up to 9 months.
- The amendment to the Energy Bill which provides flexibility to projects who were delayed in receiving planning or were in appeals at the time of the relevant cut-off date should be extended to NI. Gaelectric have proposed specific provisions which consider the unique process for applying for grid which would enable Northern Ireland to operate on a level playing field to GB projects.
- Where a grid/radar delay becomes apparent/highly likely, a letter should be provided to the generator at the earliest stage to provide certainty to investors that this project is subject to a grid/radar delay grace period.

Gaelectric also believe that the costs associated with the RO have not been accurately represented. Specifically, the analysis presented in the consultation regarding the microeconomic cost to households and businesses of supporting the NIRO absent socialisation does not reflect the following;

- Rates contribution of approximately £10,000/MW p.a.
- Community Benefit of up to £5,000/MW p.a.
- Reductions in wholesale electricity due to wind energy displacing fossil fuel driven technology, and the benefit of enhanced security of supply for the Northern Ireland consumer (both domestic and industrial).
- Recently published economic analysis[5] which indicates £61.5m boost to the NI economy through development, construction, operation and maintenance, directly attributable to NI onshore wind.

[5] http://www.ni-rig.org/wp-content/uploads/2012/07/FINAL-WEB-NIRIG-REPORT.pdf

2 RESPONSE TO CONSULTATION

Gaelectric acknowledge that this consultation is requesting feedback on proposed eligibility and evidence criteria for grace periods. However we also wish to consider further the impact on the NI renewables sector and the apparent discrepancy between the treatment of Northern Ireland projects, and projects based in Great Britain.

Since the publication of this consultation, DECC have announced updated eligibility criteria and further flexibility for some projects, as outlined below;

- An extension on the closure date for eligible projects of no more than 9 months from 31st March 2017 which recognises the impact of the process to reach Royal Assent from the 18th June 2015 decision. (herein referred to as **"Investment Certainty Extension"**)
- Flexibility re; eligibility for a grace period where a project is in planning appeal at the date of the DECC announcement or where a project had expected to receive a planning determination by this date but was delayed beyond statutory timeframes. (herein referred to as **"Planning Flexibility Decision"**)

Investment Certainty Extension

Gaelectric believe it is vital that the abovementioned flexibility is extended to Northern Ireland. In regard to the 9 month extension, we understand that the reasoning behind this decision is to protect developers from the investment hiatus which has developed because of the risk of further changes as the Energy Bill proceeds through the House of Commons and House of Lords before achieving Royal Assent.

It is clear that these risks equally apply to NI projects, particularly given that DETI seem to now be mirroring DECC policy decisions to ensure a fully socialised NIRO across the UK. The risk of this delay is being actively experienced in NI at present, and for this reason we strongly urge DETI to ensure that the flexibility is extended to the NIRO.

Furthermore, we require confirmation as to how such an extension will interact with a grid/radar grace period, i.e. if a project has availed of the full 9 month period of flexibility, and subsequently experiences a grid/radar delay, will this project have until 31st December 2018 to commission.

In summary;

- Gaelectric urge DETI to ensure that the period of flexibility of up to 9 months is available to eligible projects which have had investments delayed due to ongoing uncertainty.

Planning Flexibility Decision

In regard to the 2nd decision made by DECC regarding planning delays and appeals, we also urge DETI to ensure that NI investments are equally protected. Were this decision to be mirrored in NI however,

it would result in no further MWs being protected given the unique manner in which planning and grid elements interact with one another.

In Northern Ireland, up until 12th August 2015, developers were prohibited from applying for a grid connection until such time as the project in question was in receipt of planning permission.

This policy of rejecting applications for grid connections until receipt of planning was proved unjustified, and NIE subsequently reviewed and withdrew this hurdle on 12th August 2015. From this date, project developers were able to apply for grid with no consideration of planning status. Gaelectric have long challenged the practice of refusing grid applications in the past where planning receipt was not awarded. We have been refused grid applications on a number of occasions which, had they been accepted, would have secured grid in advance of 31st August 2015.

Gaelectric and other developers now find ourselves in a position where should the 'Planning Flexibility Decision' be extended to NI in its current format, our grid applications will have only been in the system for a maximum of 8 weeks. This is far less than the licenced requirement for a connection offer of 90 days. Therefore it was impossible for our projects, that were due decisions in the planning process by September 30th, to have grid secured by that date. This subsequently means that they cannot apply for the flexibility provided to our GB counterparts

Gaelectric believe that DETI and DECC must therefore include the abovementioned flexibility decision, however ensuring that any of these projects who have made a grid connection application by 30th September 2015 (allowing sufficient time from the statement of 12th August to prepare and submit a valid application) remain eligible for the extra flexibility. These projects should have 90 days from the 30th September to receive a grid offer, subject to NIE complying with their licence conditions to do same.

We wish to clarify that in no way does this proposal infer an advantage to NI projects, rather this ensures that projects in NI are treated on a level playing field with our GB counterparts. This is a minimum and fair expectation of developers and lenders in NI.

In regard to planning applications, a planning decision can be expected within **16 weeks** from the date of application, as indicated in the Planning (General Development Procedure) Order (Northern Ireland) 2015. Article 20 reads as follows;

(1) Where an application is made to the council under Articles 3, 4 or 5 the council shall within the period specified in paragraph (2) give the applicant notice of its decision or determination or referral of the application to the Department under section 29 of the 2011 Act.

(2) The period specified in this paragraph is –

(a) In the case of an application for planning permission for development within the category of major development, a period of 16 weeks beginning with the date when the application was received by the council;

Therefore, in summary;

Gaelectric urge DETI to ensure the abovementioned flexibility is extended to Northern Ireland **and** to ensure a level playing field by giving due consideration to the inability of NI projects to have achieved grid certainty by this date.

The criteria would therefore be as follows;

- Projects which should have expected a decision on planning by the grace period cut-off date *or* were in appeals at this time, **and**
- Applied for a grid connection on or before 31st August 2015 with 90 days thereafter to receive an offer (subject to NIE complying with their licence condition to do so), **and**
- Were in control of land as per GB arrangements.

2.1 Addressing the Cost of Renewables in Northern Ireland

A lot of focus is currently being paid to the cost to the consumer of directly supporting renewables under the NIRO where policy deviates from DECC proposals. Gaelectric believe there is a clear incentive to the Northern Ireland economy and in particular the Northern Ireland consumer in supporting renewables going forward.

We understand that the cost to households of £5/bill p.a. referred to in the consultation is in regard to 70-100MW of wind being funded without socialisation in the RO scheme (assuming 18th June being the NI cut-off date). It is important to note that this is a cost of subsidy, but ignores the all-inclusive benefit to these households.

By way of example, in the Ricardo AEA cost benefit analysis, it was found that;

- Wholesale costs are expected to rise by £120m between 2013-2020 (primarily as a result of the cost of fossil fuels). This figure includes a reduction of £19m due to increasing renewable integration. Renewables are therefore depressing wholesale costs within consumer bills by 14%.
    - It is worth noting that wholesale costs make up 58% of consumer electricity bills, 76% of which is driven by generating costs of fossil fuel plants.[6]
- Renewable project development, in a supportive environment, will create up to 2,987 jobs in 2020 with a £315m/year benefit to the NI economy.
- Under all scenarios studies by Ricardo AEA, renewables provide at least £150m benefits over their supported lifetime in tangible benefits.

Gaelectric strongly believe that future analysis to be considered by the Enterprise, trade and Investment Committee should take note of the "do nothing" scenario which will not realise the

[6] According to the Ricardo AEA assessment, generating costs represent 44% of the cost of electricity for consumers.

benefits outlined above in addition to reducing the security of supply in Northern Ireland and as such increasing consumers exposure to high fuel prices.

In addition to this, DETI should consider the wider impacts of these changes to the NI investment landscape. As a result of the considerable step back in terms of support for renewables in the UK, they now sit outside the top 10 in the Ernst and Young Renewable Energy Country Attractiveness Index (RECAI) for the first time in the history of the index. This has the potential to also impact investment in wider infrastructure given the concern over stable regulatory policy in GB in general at present.

We urge DETI to consider the impacts of these changes in policy on investment and request that due consideration is given to at least providing a level playing field to renewable developers in NI by ensuring that the Planning Flexibility and Investment Certainty decisions are appropriately extended to NI to provide an equal level of certainty to investors.

2.2 Grace Period Criteria for Projects that meet Eligibility Criteria

DETI have requested comments regarding grid and radar connection. Please see Gaelectric comments below;

Grid Evidence (as per Consultation)	**Gaelectric position**
1. Grid connection agreement consisting of:	
A grid connection offer	No comment
Acceptance of that offer	No comment
A letter from the network operator (NIE/SONI) which confirms that at the date of receipt of the connection application for the proposed generating station it was the intention to complete the relevant grid connection works no later than 31 March 2017	Gaelectric support this provision, however it is imperative that such a letter is provided up front in order to provide certainty to lenders.
2. A written declaration by the generator that to the best of their knowledge, the generating station would have been commissioned on or before 31 March 2017 if the connection had been made on or before the grid connection date.	No comment
3. A letter from NIE/SONI confirming that the relevant grid works were completed after 31st March 2017, and, in NIE/SONI's opinion, the failure to complete the relevant grid works on or before 31st March 2017 was outside of the control of the generating station developer and was not due to any breach by a generating station developer of any agreement with the relevant network operator.	The wording here infers that the letter will be provided to the developer ***after*** the fact. It is our opinion that this letter must be provided at the time when it becomes apparent that a delay is likely to occur, and as early as possible before the 31st March 2017 in order to provide certainty to investors that a grid delay grace period is available to the projects.

Radar Evidence (as per Consultation)	Gaelectric position
Radar	
1. A copy of a radar works agreement specifying a radar works completion date which is no later than 31 March 2017;	No Comment
2. A letter from a party to the radar works agreement who is unrelated to the generator / developer confirming that the radar works were completed after the agreed date and that the failure to complete the radar works on time was not due to any breach of the radar works agreement by the generator / developer;	The wording here infers that the letter will be provided to the developer ***after*** the fact. It is our opinion that this letter must be provided at the time when it becomes apparent that a delay is likely to occur, and as early as possible before the 31st March 2017 in order to provide certainty to investors that a grid delay grace period is available to the projects.
3. A written declaration by the generator that, to the best of their knowledge and belief, the station would have been commissioned on or before 31st March 2017 if the radar works had been completed on or before the radar works completion date.	See above.

3 CONCLUSION

Gaelectric believe that the NIRO has been a particular success in developing and enhancing the Northern Ireland renewables industry, notwithstanding that extensive planning and grid connection delays are hampering the investment opportunity at present. It is apparent that the NIRO was a good deal for Northern Ireland consumers, and the lower NI obligations level (over 50% lower than GB) should be viewed as a notable achievement for the Northern Ireland administration.

Notwithstanding this, we believe Northern Ireland has never been as poorly positioned to meet the burgeoning expectation of Europe from a renewable target and energy efficiency perspective. It is proposed here that the NIRO is will close early to NI onshore wind, and as proposed Northern Ireland has been placed at a distinct disadvantage to our GB counterparts.

Moreover it is clear that Northern Ireland's future renewable development programme is at the behest of the GB government. Whilst Gaelectric are steadfast in our confidence that Northern Ireland can compete with our GB counterparts in a CfD auction, it seems at this stage that the GB government are unlikely to support onshore wind, despite it being the cheapest renewable technology with which to meet renewable targets. Even if GB, and by extension Northern Ireland, were to support onshore wind in a CfD allocation, the delays have been such that we can no longer develop legislation in time to operate within a 2016 auction.

Northern Ireland therefore is facing a challenge now in regards to renewable deployment, the impacts of which will be felt in the short term.

We urge the Northern Ireland administration to begin consideration of alternative routes to market for NI renewables, including consideration of an all island support scheme in partnership with the Department of Communications, Energy and Natural Resources in the Republic of Ireland.

Absent of this, the loss of investments will inevitably lead to a deterring effect for future investments in the NI economy, not solely in renewables. Investors require certainty of regulation and supportive administration, the absence of which is currently apparent given the substantial investment in projects which will now be left stranded with no route to market.

In conclusion, it is clear to Gaelectric that renewables present a benefit to the NI economy, and by direct extension, NI consumers and businesses. A supportive renewables policy will ensure continued investment into the wider NI economy.

We urge DETI to challenge the structure being presented to the NI economy currently, and at the very least ensure that NI renewables are being treated on a level playing field to our GB counterparts in the near term by ensuring the following;

- That the period of flexibility of up to 9 months post March 2017 is available to eligible NI projects which have had investments delayed due to ongoing uncertainty.
- The recent flexibility awarded to GB projects via amendments to the Energy Bill re; planning is extended to Northern Ireland **and** a level playing field is ensured by giving due consideration to the inability of NI projects to have achieved grid certainty by this date. Our response has detailed the specific provisions required for NI projects.

Gaelectric are grateful for the opportunity to respond to this consultation, and welcome further engagement with DETI on this matter.