



**SSE RESPONSE TO
DETI CONSULTATION ON IMPLEMENTATION OF
ARTICLES 13 AND 15 OF THE ENERGY EFFICIENCY
DIRECTIVE**

APRIL 2014

INTRODUCTION

SSE welcomes the opportunity to respond to DETI's consultation on the Implementation of Articles 13 and 15 of the Energy Efficiency Directive.

Should you have any queries on our response to the question posed (below) we would be happy to meet with DETI to discuss it at a time convenient to you.

SSE is one of the largest energy utilities on the island of Ireland and is the largest single direct investor on the island. We've invested half a billion pounds since 2008 in the development of Northern Ireland's sustainable energy infrastructure, and we're committed to investing a further half a billion pounds over the next 5 years to help meet Northern Ireland's renewable energy targets.

SSE is the largest wind farm developer on the island, with 500MW of installed wind generation and a further 757MW consented/in construction in the SEM market. In addition SSE Generation Ireland Ltd owns and operates 1068MW of conventional thermal generation capacity.

We are currently developing a Combined Cycle Gas Turbine at our Great Island station to replace the existing heavy fuel oil units with a more efficient natural gas fuelled unit; this new station will be more efficient and will assist in reducing the SEM's carbon emissions. SSE is also involved in number of pilot and R&D projects, including in the area of demand side management.

Our energy supply business, SSE Airtricity, has been steadily growing in respect of domestic and commercial electricity and gas customers, and currently serves over 820,000 customers. SSE Airtricity is Northern Ireland's second largest energy provider, supplying natural gas and greener electricity to over 300,000 Northern Irish homes and businesses. We're bringing great savings to Northern Irish energy consumers – since we entered the domestic electricity market in 2010 we've delivered customer savings of around £17 million so far to our electricity customers.

Our Community Fund, which is open to community projects in the vicinity of our generating stations has invested over £500,000 so far into local communities around our wind farms from our community funds, supporting over 250 projects that are transforming schools, communities and sports clubs around our wind farms. The fund focuses particularly on projects that prioritise energy efficiency.

RESPONSE TO CONSULTATION QUESTIONS

1. *Do you agree that the Energy Order should be amended as outlined above to ensure compliance with the requirements of the Directive?*

SSE is not convinced that there is a need to amend the Energy Order as outlined. Article 15(1) refers only to decisions on the operation of the gas and electricity infrastructure, and SSE considers that the wording of Article 12(5)(a) already includes this activity. As this clause currently covers persons authorised by licences

or exemptions in the distribution and transmission of electricity we argue that the requirement of the Directive is met. It is our view that the proposed amendment makes the provision broader than intended by the Directive.

2. *Are there any potential impacts from extending the Utility Regulator's duties in this way?*

The proposed extension of the UR's duties will have many potential impacts, given the breadth of the proposed change it is difficult to predict how this duty will be implemented. SSE has found in recent times that broad and ambiguous terms in legislation and licences have been interpreted in surprising ways by the UR, which has led to unforeseen duties and liabilities. This increases risk for licensees and ultimately increases costs for consumers in Northern Ireland. For this reason, SSE would prefer changes limited to the minimum required. We would highlight however, that SSE Airtricity, as a supplier, is committed to delivering energy efficiency savings in line with its obligations.

3. *Do you agree that the duties and obligations currently imposed on the Utility Regulator by Article 14 of the Energy Order cover the requirements of Article 15(1) in relation to gas?*

SSE agrees that no change needs to be made in relation to gas. As above, we would highlight that the current legislation extends more widely than required by Article 15(1) of the EED.

4. *Do you agree that no further action is required to ensure compliance with the requirements of Article 15(1), paragraph 2? If not, please provide further details.*

SSE considers that as the Directive refers to system services, that DETI should require that all ancillary services should be open to participants in terms of design and contract allocation. We strongly consider that system services must be open to *all* types of technologies, with neutral evaluation based on technical capability. We consider that DSM, and more specifically emerging DSM technologies such as smart electric heating and electric vehicles, have great potential in this regard.

5. *Do you agree with the Department that Licence/T&SC amendments are required in respect of Annex XI, paragraphs 1 and 2(f)?*

SSE considers that no licence changes are necessary to implement paragraphs 1 and 2(f).

Paragraph 1 requires that network tariffs should be cost-reflective of savings in networks achieved from demand side management, demand response measures

and distributed generation, including savings from lowering the cost of delivery or of network investment and a more optimum operation of the network. We consider that current arrangements whereby tariffs are set on a cost reflective basis and are non-discriminatory are sufficient, as overall benefits of reduced and avoided network costs are taken account of in the UR's networks price controls. We do not see any requirement from the Annex to provide priority dispatch or preferential network tariffs to storage.

Although it is not clear from the consultation paper it seems that the Department consider that Annex XI requires network tariffs to encourage the technologies mentioned. SSE does not share this view, we consider that the Annex requires that these technologies be given access to energy, balancing and ancillary services markets and that the services they provide should be remunerated through these markets. We do agree that these technologies should be eligible to provide these services on a technology neutral basis.

6. *Do you agree with the Department that no further action is necessary for Annex XI, paragraphs 2(a) to (e) and paragraph 3?*

SSE supports the requirement in paragraph 2 of Annex XI that DSM, demand management and distributed generation should be enabled to provide system services as set out in paragraph (a)-(f) through an open and transparent process on a technology neutral basis, as should be the case for all other providers. We note that these points are being considered in the current examination by EirGrid and SONI of system services in a high wind scenario and we agree that no licence change is required.

Our read of paragraph 2 of Annex XI is that it relates to provision of system services, so that considerations around tariffs and TLAfs do not seem relevant, we would welcome clarification from the Department on what is meant in paragraph 1.20 of the consultation paper by the statement that NI is not compliant with respect to embedded generation, encouraging AGUs and TLAfs. We expect that these technologies will be able to participate in energy and balancing markets and capacity mechanisms under I-SEM in a technology neutral manner.

There are modifications before the Modifications Committee considering amendments to the Trading and Settlement Code to allow for forms of storage other than pumped storage. Given the imminent introduction of I-SEM we consider that this matter will most likely be dealt with through that process. We note that unfortunately it does take some time to implement T&SC Modifications.

The consultation paper states that storage is not captured within the priority dispatch hierarchy under SEM-11-062. It is not clear whether DETI proposes that a change should be made in this respect, we would submit that no change is warranted. As above, we do consider that market arrangements for storage should be developed.

7. *The Department would welcome views on whether current network tariffs could better incentivise network operators or energy retailers making available system services as outlined in Annex XI paragraph 2(a).*

SSE considers that the correct approach to take to network tariffs is that they should be cost reflective. The provision of system services should be incentivised by payments for those services. As outlined above, we consider that *all* technologies should be eligible to provide these services on a technology neutral basis.

We submit that the Smart Meter Rollout project can re-consider the issue of dynamic networks charges.

8. *Do you agree with the Department's proposal to place a duty on the Utility Regulator to ensure that the assessment is carried out by 30 June 2015?*

Please outline any impact that may be associated with this approach.

SSE agrees with the proposal that the UR would lead this assessment and advocates that this condition must evaluate carefully whether proposed measures are cost efficient, as set out in 15(2)(b). We note that suppliers must respect data protection and privacy requirements in providing information. We also consider that generators should be permitted to input to such a review as they may well have proposals around efficient generation or system management. A review of innovation in other jurisdictions' systems would be useful in this respect.

SSE notes that the generator connections process in Northern Ireland is currently very slow. We consider that there is great potential to improve it, particularly by the introduction of contestability for all connections.

9. *Do you agree with the Department's view that no further action is required?*

SSE agrees that no further action is required in respect of Article 15(3). As a general principle SSE considers that social aims are best tackled by social policies rather than through energy tariffs. We consider that the latter approach distorts the energy retail market and results in the cost falling regressively on other customers, regardless of their ability to pay, which may well exacerbate the initial problem.

10. *Do you agree with the Department's proposal to introduce a legislative requirement on the Utility Regulator to ensure that future tariffs comply with the EED?*

Yes, SSE agrees with this approach. We would welcome consultation on the wording of this legislation in order to ensure that there are not unforeseen implications.

11. *Do you agree that no further action is required in respect of the second part of Article 15(4)?*

Yes, SSE agrees with this approach.

12. *Do you agree with the Department's view that NI is currently compliant with 15(5)(a) and 15(5)(b)?*

Yes, SSE agrees with this approach.

13. *Do you agree with the Department's view that the proposed amendments above will ensure compliance with Article 15(5)(c)?*

Yes, SSE agrees with this approach. It will be necessary to decide how generation plants are certified as high efficiency cogeneration, and we submit that this process should be open to consultation with stakeholders.

14. *Do you agree that the current provisions are adequate to ensure compliance with these requirements?*

Yes, SSE agrees that current provisions are adequate.

15. *Do you agree that additional duties and licence modifications are required to ensure compliance with Annex XII (iii)?*

SSE considers that *all* generators must be given a reasonable indicative timeline for connection. We consider that current arrangements are inadequate, and uncertainty over connection dates create huge commercial risk for developers; we see this as a threat to Northern Ireland achieving its renewable energy target. In this regard we support the introduction of contestability for all generation connections.

16. *Do you agree with the Department's position regarding micro-cogeneration?*

Yes, SSE agrees that this provision is already complied with.

17. *Do you agree with the proposal to impose a duty on NIAUR to include licence conditions relating to balancing services as part of a services bidding process?*

It is unclear whether proposal covers balancing and other operational services, we submit that both should be included.

SSE considers that *all* providers should be able to bid for system services on a technology neutral basis, regardless of whether they are transmission or distribution connected. As for balancing services, this should be included in I-SEM design and apply to all generators or other operators.

18. *Do you agree with the proposal to impose a duty on NIAUR to include licence conditions relating to procuring system services in a non-discriminatory and transparent manner?*

SSE considers that it should be open to distribution-connected providers (high efficiency cogeneration or otherwise) to provide system services and that these should be procured in a non-discriminatory and transparent manner.

19. *Do you agree that Northern Ireland should continue to encourage high-efficiency cogeneration to be sited close to areas through the 30% locational signals element of the Generator Transmission Use of System Charges.*

SSE agrees that high efficiency cogeneration should be treated in the same manner as other generation with respect to the locational element of charges and losses.

20. *Do you agree with the Department's view that no action should be taken in relation to Article 15(7)? If you disagree, please provide details.*

SSE does not agree with this approach and would encourage the Department to introduce a requirement that *all* generators connecting to the distribution and transmission networks be permitted to issue a call for tender for the connection work. Even if a mechanism is under discussion, a legislative requirement will give developers certainty that this provision will be delivered. SSE has long advocated contestability for the transmission and distribution networks, we consider that it will deliver greater efficiency in delivering connections in terms of cost and time, and in this way will assist Northern Ireland in achieving renewable energy targets and in tackling capacity adequacy concerns.

21. *Do you agree with the Department's view that it will be necessary to amend Article 12 of the Energy Order to introduce a specific requirement on the Utility Regulator to encourage demand side resources?*

SSE considers that the wording of the Directive does not require the UR to encourage DSM, rather it is to encourage DSM to participate in wholesale and retail markets. We consider that the design of the market already allows DSM (and aggregators) to participate and that this is sufficient for the purposes of the Directive. We would welcome further progress as envisaged under the Demand

Side Vision paper and we consider that the rollout of smart meters will enable greater consumer participation.

SSE considers that it would be wholly inappropriate for the UR to enter agreements with consumers or aggregators of consumers as it must, under law, be an independent regulator. SSE is unsure as to why these agreements would relate to encouraging energy efficiency as this would not relate to the requirement under the Directive.

22. *Do you agree with the Department's view that it will be necessary to amend the Grid and Distribution Codes to ensure compliance in this area?*

SSE is in favour of this amendment and supports the provision of ancillary services from transmission and distribution connected providers on a non-discriminatory basis.

23. *Do you agree with the Department's view that it will be necessary to amend the Grid and Distribution Codes to ensure compliance in this area?*

SSE would welcome a provision that technical modalities regarding balancing, reserve and other system services should be defined in close cooperation with *all* potential providers and other affected parties.

24. *Views on implementation of Article 13?*

SSE considers that as the duties under these Articles have not been transposed in Northern Ireland yet it is difficult to comment on the appropriateness of penalties. We would note that these duties will impose costs on obligated parties, and their customers. We would also highlight that obligated parties will not have much time to implement these obligations, the duties have not yet been transposed and many will require legislation and licence change, yet compliance is required by the end of this year under many provisions.