



Energy

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Energy Pool

Ellen Arnison

THE PAST year has seen a huge number of changes for the energy industry in Northern Ireland. In November the long-awaited Single Energy Market (SEM) for the Republic and Northern Ireland got underway allowing effectively for all electricity in the Ireland of Island to be traded from one pool.

The impact for around 2.5 million customers on both sides of the Border is that they suddenly have a choice of places to buy their electricity and the competition should make prices keener.

Airtricity has announced plans to win a significant share of the Irish domestic energy supply market two years after the Irish company pulled out of the consumer supply market.

Airtricity managing director Kevin Greenhorn said the advent of the Single Energy Market, encompassing Northern Ireland and the Republic, had been a factor in the company's change of direction.

Customer relationship management systems installed by Airtricity when it last attempted to enter the market are able to bill customers in sterling or euros as appropriate.

The company hopes to attract 500,000 domestic customers within five years, which would give it a 15 percent share of the market.

Customers will ultimately be able to sign up to a dual fuel deal. They can sign up for electricity supply immediately and will be able to buy gas from April 2009.

The SEM has only been physically possible through the construction of interconnectors linking Northern Ireland and Southern Ireland.

The main interconnector, between Tandralee and Louth has a capacity of 1,200 MW. Two back-up interconnectors have a combined capacity of 240 MW. An additional interconnector is planned to be in operation by 2012 to enhance the island of Ireland's grid.

Additional electricity comes from the

UK mainland via the 500 MW Moyles Interconnector under the North Channel between Scotland and Northern Ireland.

But power generation in Northern Ireland itself is healthy, already ten percent of its output is exported to Southern Ireland.

Power is generated at the 520MW AES Corporation's Kilroot power station at Carrickfergus, ESB's new 400MW Coolkeeragh combined cycle power station near Derry and the 600MW natural gas power station in Country Antrim owned by Premier Power Ltd.

SeaGen, a prototype tidal generator, the first in Europe, is being developed in Strangford Lough. It will be contributing electricity to the grid towards the end of 2008.

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Northern Ireland's total energy consumption is approximately the equivalent of 4.9million tones of oil. Most of this energy comes from fossil fuels.

Environment Minister Arlene Foster is keen to consolidate the industry's leap forward following the inauguration of the SEM and to focus on stability of supply and reducing environmental impact.

Earlier this year she met the Northern Ireland Authority for Utility Regulation (NIAUR) to consider key energy issues.

Among the issues discussed was the crucial matter of rising energy prices and the impact these are having on both, the business community and vulnerable households in fuel poverty.

The SEM and the rollout of the natural gas industry across Northern Ireland were also on the agenda.

The Minister said: "There has never been a more challenging time for energy policy in Northern Ireland. I welcome the opportunity to engage with the Chairman and Chief Executive of NIAUR on how we address the numerous challenges and balance the interests of business, householders and the environment."

She went on to encourage the people of Northern Ireland to have their say in the debate about renewable energy. She said: "Northern Ireland has some of the best conditions in Europe for renewable electricity production and we want to hear your views on how we can maximise this potential – and how we can start to increase levels of renewable heat consumption.

"We are almost wholly dependent on the import of fossil fuels. As the prices of these continue to increase, Northern Ireland must ensure it has access to secure, competitively priced and sustainable energy supplies. Boosting the production and consumption of renewable energy is a key part of my strategy to achieve this."

In 2007 under the Kyoto agreement European Union Heads of Government agreed to a binding target that 20 per cent of the EU's energy should come from renewable sources by 2020. Northern Ireland has some way to go to achieve its part.

Currently it is aiming for 12 percent renewable electricity by 2012 with an aspirational target set by the NI Sustainable Development Strategy of 40 percent by 2025.

Overview



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Over the past few years the energy industry in Northern Ireland has undergone something of a revolution. A few years ago, power customers suffered no choice of source or supplier and high anxiety about the security of that supply.

Now things couldn't be more different – customers can take service and more choice for granted - and ESB Independent Energy (ESBIE) has been leading the way.

Established in 2000, ESBIE is a company within the ESB Group – the incumbent electricity company in the Republic of Ireland.

It was set up to compete in the liberalised electricity market, especially Northern Ireland.

Liam Molloy, managing director of ESBIE, said: "We supply across the whole

of the island of Ireland and we're focussed on the industrial and commercial market segments."

His company currently supplies about half of the industrial and business market and around 20 percent of the total market in Northern Ireland.

"Initially we entered the market as a supplier, and, at that stage, our purchasing power and utility background gave us the advantage," Liam explained.

"Recently, however, our parent company, ESB International has built a power station on the site of the old Coolkeeragh plant in Londonderry. It was the first independent power station in Northern Ireland making us the first competitive power generator and supplier since the market was deregulated."

The 400MW combined gas cycle turbine facility cost £200million and uses the cleanest technology to take its place as the most efficient power station on the island of Ireland.

"This investment underlines ESB's

EWP Windfarm



commitment to and belief in the future of the Northern Ireland electricity market,” Liam commented.

ESBIE has been able to significantly leverage its market position since November 2007 when the Single Electricity Market was established, allowing free power trade between Northern and Southern Ireland.

From a business point of view, this simplifies matters enormously for businesses that have outlets on both sides of the border yet only want to negotiate one deal with one supplier.

Liam said: “It has been a huge development for us in terms of supplying businesses in Northern Ireland – many of our customers operate in both the north and the south.

For example, we’ve signed a major supply contract with BT for their operations on both sides of the border. They have 260 sites between the two countries and we can supply them all with just one point of contact.”

The changes in the Irish electricity market in a few years have brought huge benefits for business customers.

Liam explained: “It’s been a huge shift for the Northern Irish market. One of the problems with a small market is that you don’t have any economies of scale and that affects everyone in the industry. It affects a power station in terms of the size of its customer base and it affects customers in terms of level of choice.

“Increased competition is the key and that’s what we’ve brought to Northern Ireland by stepping up to the plate. It’s the first time the market has seen competition.”

But the changes don’t end here.

Looking to the future, Liam would like to see ESBIE taking its place on a European stage, a move driven by EU plans to integrate all the markets of Europe.

Before then, however, Ireland would need to increase its interconnection, physically and commercially, with the National Grid.

The Moyle Interconnector between Northern Ireland and Scotland has already started that process although the free trade Liam envisages is still some



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distance away.

A second interconnector between Ireland and Wales is planned by 2012.

Liam said: “Two interconnectors would see competitors operating in both directions. The more interconnectors we have the more we can integrate the UK/Ireland markets.

ESB International is already positioned in the UK market with a joint venture with Eon in a power station in Corby, Northamptonshire, and we are currently building an 800MW power station in Southampton, Hampshire, with Scottish and Southern Electricity.

We have a number of other projects in the pipeline. We’re positioning ourselves in the context of the emerging UK/Ireland Regional market which is the next milestone in the EU’s policy objective of creating an internal energy market.”

ESBIE takes great pride in offering the

highest level of service to its customers.

Key clients are dealt with on a one-to-one basis and their contract structures tailored to the needs of their business.

Half-hourly metering and analysis of energy use combined with energy efficiency advice can reduce clients’ consumption – and therefore their bills – by up to 10 per cent.

Liam added: “We are much more than simply an electricity supplier. We work in partnership with our customers – as advisors. It’s our business to help their business become more energy efficient, a key issue nowadays given the level of speculative gas and oil price volatility which is posing serious challenges for electricity customers. Quite rightly, customer expectations are high and, naturally, our objective is to fulfil them.”

Energy - A Transformation Point?

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The incumbent electricity suppliers in Ireland traditionally operated as separate undertakings in two separate jurisdictions. With the advent of the internal market in electricity the EU required all member states to open their electricity markets to competition. This process commenced in Ireland in 1999 with the opening of the large user market to competition. This step provided opportunities for suppliers in one member state to market to another state. Although the separate markets operated satisfactorily initially it was clear that a more efficient market environment was needed if new entrants were to be attracted.

It made little sense for two relatively small markets to operate separately side by side and miss out on the benefits of greater integration. An alternative to the separate bi-lateral markets was sought by both regulatory authorities.

The All-Island Project was conceived with the aim of introducing an all-island 'pool' which would provide a wholesale market for electricity in both Northern Ireland and the Republic of Ireland. The Viridian group were very strong promoters of an all-island project as we were the first and remain the major participants in both NI and RoI and were convinced of the benefits for competition and security of supply that a larger market would bring.

An enormous amount of work and resource went into creating the Single Electricity Market in Ireland and it is probably unique throughout Europe in that we have essentially a single jointly administered market in electricity operating across the jurisdiction of two member states. This requires efficient administration and strongly cooperative working arrangements by government departments, regulatory authorities and

the market participants.

The single market has had its teething problems as is to be expected from introducing a brand new market arrangement with all the complexity and sophistication of new market rules and supporting systems.

However the market has operated reasonably efficiently since its inception, producing generally the right wholesale price signals. It is extremely important however that regulators provide the necessary governance of short-run market behaviour and that they recognise the importance of long-term outcomes. Regulatory consistency and certainty, where it can be provided, are essential to providing investment confidence to existing and potential new market participants.

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Viridian is the largest independent operator in the Irish market with an investment in two modern power plants and a business customer base of over 40,000 customers. Viridian has also led the way in the dual-fuel market offering gas and electricity contracts initially to large industrial customers and more recently to the small medium enterprise sector. Viridian is also a leading participant in renewable energy (as the accompanying article describes) with a portfolio of windfarm off-take contracts and assets in both NI and RoI.

As a relatively small energy market on the periphery of Europe with limited indigenous fossil resource, Ireland is easily exposed to the uncertainties and fluctuations of world commodity markets.

Cost, security of supply and sustainability are paramount considerations in the design of government energy strategy. While the need to secure affordable, secure and sustainable energy supplies is apparent, there are inevitably limited options available, particularly to a small, isolated energy market with limited resources.

Certainly further interconnection with Great Britain and Europe, gas storage and LNG are options for providing some degree of insulation to commodity uncertainty. Its location on the Atlantic seaboard gives Ireland unique access to wind resource. In addition it is firm government policy in RoI to very significantly increase the amount of energy generated from renewable sources.

Exploring natural resources and developing supporting infrastructure brings its own problems of planning consents and public acceptability. However there is a growing recognition, certainly within the last couple of years, that escalating energy prices (the world of relatively cheap energy is gone forever) and the need to address climate change will mean solutions to our energy needs that are quite different to those we have been able to pursue in the past.

This in turn will require more efficient and flexible planning and consents processes and a much more 'joined-up' approach between governments, regulators and investors than has been the case up to now. Government and regulatory processes and incentives need to be aligned with the outcomes they wish to see happen.

The opening of the energy markets in Ireland to competition has progressed quite well and significant competition now exists at the level of industrial and commercial customers. While several suppliers have stated their intention to compete in the domestic electricity and gas markets no-one has yet taken this step and there remain substantial barriers to entry. Domestic market entry requires a major financial commitment in systems and marketing and acquisition expenditure and investors will look for a reasonable certainty of adequate margins over the long term.

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As the largest supplier to the business sector it will be a logical next step for Viridian to enter the domestic market. Our previous investment in modern, efficient power plants and modern customer systems provides us with an excellent platform to take that step.

Unfortunately the liberalisation of the energy markets and the introduction of the all-island wholesale market in Ireland has coincided with a period of unprecedented rises in energy prices and an increasing burden of renewable and carbon costs being borne directly by customers. It has been an extremely difficult period for customers with no real prospect of relief via significantly falling prices.

Creating diversity and sustainability in energy sources will require very significant investment in both primary energy production and supporting infrastructure. Expectations of a return to relatively cheap energy when we could be ambivalent about conservation are gone. Prices are now at a level where conservation is now at the top of the end-use agenda.

Energy strategy – what form? Where will we get it? Is it secure? It is now also top of government agendas in a way that has not been the case before. It is also the case that most energy strategies produced by governments have been piecemeal and have fallen a long way short of a coherent strategy or energy policy with concrete



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targets. The UK's commitment to nuclear replacement and the ROI's commitment to very substantial renewables targets are evidence that governments are indeed getting serious about energy policy.

The role and financial model of energy providers will also have to change. It will be the job of energy suppliers going forward to find cost-effective and innovative solutions for meeting their customers' energy needs which do not rely on selling more but on providing energy products to customers that minimise the overall bill, reduce the customers' carbon footprint and provide intelligence that allows customers to make informed choices about how they use this precious resource.