

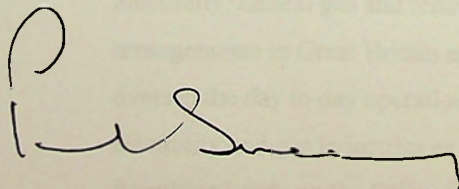
From: PAUL SWEENEY
1 December 1998

cc Mr John Taylor
Mr Reg Empey
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Ms Bairbre de Brún
Mr Séamus Close
Mr David Ford
Mr David Ervine
Mr Billy Hutchinson
Dr Monica McWilliams
Ms Jane Morrice
Mr David Ferguson
Mr David Campbell
Mr David Lavery
Mr Colm Larkin
Mr Hugh Logue

To: PS/First Minister
PS/Deputy First Minister

DEPARTMENTAL STRUCTURES: ENERGY FUNCTIONS

1. At the round table discussions on Departmental structures held on 17 November it was agreed that officials would prepare a paper on energy functions.
2. Please find attached a paper prepared by the Department of Economic Development officials on energy policy functions.



Paul Sweeney

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ENERGY POLICY FUNCTIONS

Introduction

1. The use of energy is an integral feature of everyday life in a modern industrial society. The availability, quality, reliability and cost of energy supply has implications to a greater or lesser degree for all other aspects of Government activity. It is not a discrete nor self standing policy area.

Present Position

2. Before providing DED comments on the thinking behind some of the options which have been floated on where the energy policy portfolio might lie within any revised Northern Ireland Departmental structures it may be helpful to describe briefly the current position.
3. Current energy policy is set out in a number of strategy documents, including in particular the 1992 document 'Energy for the 90s and beyond'. Responsibility for the delivery of current policy objectives and the ongoing evolution of policy in the light of developments in the European and World energy scenes rests with Energy Division, DED. This Division also has certain statutory responsibilities for the electricity, natural gas and renewable energy sectors. In line with similar arrangements in Great Britain an independent Regulator has been appointed to oversee the day to day operation and promote competition in the privately owned electricity and gas industries as well as protect the interests of consumers. The Regulator heads up the Office for the Regulation of Electricity and Gas (OFREG), a Non-Ministerial Government Department.
4. Operational responsibility for the promotion of and provision of advice on energy efficiency in (i) the industrial and commercial sector rests with the DED Industrial

Research and Technology Unit (IRTU); and (ii) the domestic and public sectors with the Department of the Environment (NI).

5. Further information on the present arrangements is provided in the attached Annex.

Planned Developments in the Energy Sector

6. NIE plc and Scottish Power plc announced on 18 November that all the necessary consents had now been obtained to enable the planned Northern Ireland-Scotland ("Moyle") electricity interconnector project to proceed. The interconnector is expected to be in commission by December 2001. It will connect Northern Ireland into the Great Britain and wider European electricity grids and create the much needed opportunity for the further development of a competitive energy market in Northern Ireland.
7. This significant announcement is the first step in a number of important developments expected over the coming years. The implementation, in February 1999, of the European Union Electricity Liberalisation Directive will open up 25% of the electricity market in Northern Ireland and allow 250 largest consumers (almost exclusively industrial consumers) to buy electricity from independent suppliers in Northern Ireland or elsewhere. Further progressive opening of the market is planned.
8. At the same time DED continues to examine the options for extending the gas network beyond the Greater Belfast area and, together with the Irish Government, are examining ways to meet the ever increasing demand for gas in the island of Ireland as a whole, both for industrial and domestic consumption.
9. The European Union has played and is expected to continue to play a key role in the ongoing development of a more efficient and competitive energy market in

Northern Ireland, with consequent benefits for consumers. EU support has as a primary aim the encouragement of closer links between neighbouring markets.

Possible Options for the Future

10. Political direction of future energy policy in Northern Ireland will fall to the new Assembly. DED believes that, in addition to taking into account the present position and planned developments, there are perhaps three basic considerations which might influence decisions on where responsibility for energy functions should lie in the future:-
 - (i) it seems important that the independence of the Regulator should be maintained. Indeed the UK Government Green Paper "A Fair Deal for Consumers: Modernising the Framework for Utility Regulation" published in March 1998 includes a number of recommendations aimed at increasing the range and strength of the Regulator's powers. The Northern Ireland Assembly will have to decide in due course whether to implement these proposals. It is perhaps also worthy of note that steps are current being taken in the Republic of Ireland to establish an independent Regulatory Authority, broadly along the lines of the current arrangements in Northern Ireland;
 - (ii) a strong argument can be made to support the contention that there is a synergy between the energy policy and the wider economic development portfolios. The availability of diverse, reliable and low cost energy sources is of key importance in meeting the strategic objectives of (i) improving the competitiveness of existing industrial and commercial concerns in Northern Ireland; and (ii) attracting further inward investment. There has been a strong body of opinion in the representations made to the Energy Working Group, chaired by Sir George Quigley and due to report shortly, of

the continuing importance of a clear linkage between the energy and economic development briefs; and

- (iii) experience has shown that responsibility for promoting the energy efficiency message and taking specific action to reduce energy consumption must – if it is to be effective – rest with those who deal directly with energy consumers. Success cannot be achieved by remote control. Thus, for example, responsibility for improving energy performance in the industrial sector would appear to lie best with those who advise industry on other aspects of best industrial practice, ie the IRTU; and responsibility for energy efficiency in both the domestic and public sectors is most effectively addressed within the overall environmental remit currently exercised by the Department of the Environment (NI).

Conclusion

11. DED hopes that the information and views set out in this paper, and particularly those in paragraph 10, will prove of value when final decisions are being taken on the energy policy portfolio.

DEPARTMENT OF ECONOMIC DEVELOPMENT

November 1998

ENERGY POLICY FUNCTIONS: CURRENT ARRANGEMENTS

Policy Statements

1. The current DED energy policy is set out in 4 related publications (a) "Energy Policy for the 90s and Beyond", (b) "Energy Efficiency the Personal Priority", (c) "Prospects for Renewable Energy in Northern Ireland" and (d) "The Potential for Combined Heat and Power in Northern Ireland". The mutually reinforcing recommendations of these policy papers were founded on analysis of the region's main energy market weaknesses - its small size; peripherality; scattered demography; lack of interconnection; absence of gas; over dependence on oil for power generation; and the lack of effective commitment to energy efficiency and its integration with environmental protection and conservation. These weaknesses, the most fundamental of which were structural, led to high prices for consumers and dictated the main thrust of remedial strategies.

2. The strategies had the following key components:
 - ensuring security of supply;
 - reducing peripherality through improved interconnection North/South and East/West;
 - promoting competition, market liberalisation, restructuring the industry and introducing regulation;
 - diversification of fuel sources/removing oil dependence/attracting gas;
 - promoting energy efficiency, reducing demand, encouraging best practice;
 - pursuing lower prices for consumers; and
 - promoting renewables and the use of Combined Heat and Power (CHP).

3. All of these strategic objectives remain relevant in regional, national and international contexts. They are reflected in UK, EU, OECD and various international strategies. Ensuring security, and promoting diversity of fuel supply and choice, are basic to all energy strategy. Increased liberalisation and competition are not only central features of UK policy but are also endorsed through EU directives on both electricity and gas. In GB liberalisation is already delivering lower electricity and gas prices and stronger regulation is proposed in the interests of greater consumer protection. Similarly the strategic advantages of interconnection are endorsed by both the UK and EU energy strategies.

Regulation of Electricity and Gas

4. DED, under the provisions of the electricity and gas legislation, has powers to appoint a Director General of Electricity Supply (DGES) and a Director General of Gas (DGG). Mr Douglas McIlloodon currently holds both these legally separate offices. Mr McIlloodon, as DGES and DGG, heads up the Office for the Regulation of Electricity and Gas (OFREG), a Non-Ministerial Government Department. Brief details of Mr McIlloodon's electricity and gas regulatory duties are set out in the attached Appendix.

Energy Efficiency

5. For a number of years the energy remit of DED included the promotion of energy efficiency in (a) the domestic sector, (b) the public sector and (c) industry and commerce. In Autumn 1997, following a comprehensive re-examination of the delivery mechanisms for all aspects of energy efficiency, Ministers decided that revised arrangements should be put in place. In brief these are:-
- (a) domestic energy efficiency promotion and grant aid should be taken forward by the NI Housing Executive but under the overall direction of DoE (Housing Division);
 - (b) the public sector energy efficiency campaign should be led and co-ordinated by DoE (Accommodation, Construction and Fire Division); and
 - (c) energy efficiency in industry and commerce should be promoted by the DED Industrial Research and Development Unit (IRTU).

6. In more detail, DOE Housing Division, in conjunction with the NI Housing Executive, has specific responsibility for:
 - management of the Domestic Energy Efficiency Scheme;
 - promotional campaign in the domestic sector;
 - liaison with other organisations with an interest in the domestic sector, eg Energy Saving Trust, NEA (NI).

7. DOE Accommodation, Construction and Fire Division has responsibility for:
 - provision of the Secretariat for the Inter-Departmental Committee on Energy Efficiency (IDCEE);
 - preparation of IDCEE annual report;
 - management of the (Public Sector) Central Fund for energy efficiency;
 - liaison with Department of Employment, Transport and the Regions (DETR) in London on the Northern Ireland element of UK Public Sector energy efficiency campaign.

8. IRTU is responsible for dissemination of Best Practice Programme material in the industrial and commercial sectors on behalf of DETR. IRTU is active in energy efficiency promotion areas, as follows:
 - publishes promotion material;
 - trained staff undertake half day visits to industrial and commercial premises to provide free advice on energy efficiency procedures;
 - the Regional Energy Efficiency Officer is a member of IRTU's staff.

REGULATORY DUTIES OF DIRECTOR GENERAL OF ELECTRICITY SUPPLY FOR NORTHERN IRELAND AND DIRECTOR GENERAL OF GAS FOR NORTHERN IRELAND

Director General of Electricity Supply for Northern Ireland

- (i) The main duties of the Director are:
- to secure that all reasonable demands for electricity are satisfied;
 - to secure that licence holders are able to finance the carrying on of the activities which they are authorised or required by their licences to carry on; and
 - to promote competition in the generation and supply of electricity.
- (ii) Other duties include protecting the interests of consumers in respect of the continuity of supply; the prices charged and the other terms of supply and the quality of the electricity supply service provided.
- (iii) The Director appoints a Consumer Committee for Electricity to advise him on electricity consumer affairs, to assist in investigating consumer complaints and generally to represent the interests of consumers in Northern Ireland.

Director General of Gas for Northern Ireland

- (i) The main duties of the Director are:
- to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland; and
 - to secure that licence holders are able to finance the carrying on of the activities which they are authorised or required by their licences to carry on.
- (ii) Other duties include protecting the interests of consumers in respect of the continuity of supply; the prices charged and the other terms of supply and the quality of the gas supply service provided.
- (iii) The Director is assisted in the discharge of his responsibilities by the General Consumer Council which has a statutory duty to advise the Director on any matter affecting the interests of gas consumers or which the Council considers it should offer advice or which is referred to the Council by the Director.