

From the Office of the
Minister of Agriculture,
Environment and Rural Affairs



Department of
**Agriculture, Environment
and Rural Affairs**

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Dear Alan

DAERA RESPONSE TO UTILITY REGULATOR CONSULTATION ON RP7 DRAFT DETERMINATION

Thank you for the opportunity to respond to the Draft Determination for the RP7 Price Control for NIE Networks. My Department has a strong interest in the RP 7 Draft Determination and welcomes the opportunity to provide input to the process. The development and delivery of an electricity network that supports the integration of renewable electricity and smart systems will be fundamental to the delivery of the policies and proposals contained within the forthcoming Climate Action Plan (CAP) and by extension meeting the 2023-27 and 2028-32 carbon budgets.

I have considered the proposals as outlined in the consultation documents. Please find enclosed the DAERA response to your consultation on the RP7 Price Control Draft Determination Consultation.

I trust that you will find this feedback useful.

Yours sincerely

ANDREW MUIR MLA
Minister of Agriculture, Environment and Rural Affairs

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Annex A: DAERA Green Growth response to the Utility Regulator RP7 Price Control Draft Determination

The RP7 draft determination sets out new limits on the revenue that NIE Networks can recover from customers in order to operate their business for the six-year period from 1 April 2025 to 31 March 2031. This is an open consultation and Utility Regulator NI invite stakeholder views on any particular aspect of proposals.

Consultation opened on 28 November 2023 and will close on 22 March 2024 at 12:04.

DAERA comments

The Department of Agriculture, Environment and Rural Affairs (DAERA) has responsibility for food, farming, environmental, fisheries, forestry and sustainability policy and the development of the rural sector in Northern Ireland. DAERA leads on Developing the Green Growth Strategy on behalf of the NI Executive and is leading a programme of work to deliver the Executive commitments in that strategy which sets out a long-term vision for tackling the climate crisis in the right way. This includes coordinating the development of the first NI Climate Action Plan and associated Sectoral plans which sets out how NI will work towards reducing carbon emissions.

Therefore, DAERA has a strong interest in the RP7 draft determination, recognises its importance and welcomes both its release and the opportunity to provide input to the RP7 process.

Green Growth Delivery

- The determination would benefit from clearer messaging on actual headline additional costs e.g. how much more will domestic consumers pay in future in real terms vs today rather than noting they will be paying £13 less than what the NIE Networks Business plan would have cost domestic consumers. We would have concerns that consumers may think that they will be paying less for network charges in future. Also, would this be mainly a temporary reduction as most of this reduction is the deferment of £0.34bn?
- There is currently limited reference to “Just Transition”. A fuller explanation and indication of what it means in practice would be helpful.
- There seems to be a disproportionate cost placed on large electricity users. As this is noted as being largely due to the increase in transmission costs, DAERA would welcome clarification on whether this means that large energy users will be subsidising costs to lower energy users on the transmission and distribution network. It should be clarified if these additional costs will ultimately be passed to consumers through an increased cost of goods and services.
- It appears that the burden will fall disproportionately on consumers that adopt green technologies such as heat pumps or EV chargers while those that

perhaps remain on oil or gas for heating and drive a diesel or petrol car will not. Is it assumed that this will be offset if electricity prices drop but fossil heating and transport fuels do not? We have concerns this will discourage the uptake of technologies necessary to meet our transition to Net Zero.

“Based on our draft proposals, domestic tariffs will not increase due to the additional network costs for RP7, as long as their electricity consumption doesn’t increase and they do not adapt to any new technologies (for example heat pumps and electric vehicles). For those domestic consumers who do increase their electricity usage and install heat pumps or use a home charger for an electric vehicle, their electricity costs will increase. However, this additional electricity cost will be offset by a reduction to their home heating and transport costs.”

- We would particularly welcome investment in infrastructure that will maximise the ability of businesses and homeowners to invest in renewable technologies such as solar, EV and heat pump technology. Also, infrastructure to allow the maximisation of renewable energy generation whether that be from microgenerators such as small scale solar or the infrastructure to maximise the use of large-scale offshore wind.
- Does the figure of 120,000 heat pump installations by 2030 include fully electric heat pumps only or also a proportion of hybrid gas/electric heat pumps?
- We welcome the inclusion of the upgrade of low capacity 11 kV sections of the network in rural areas.
- Given’s DAERA focus on Innovation, and the requirement for innovative approaches to meet net zero, we are concerned that the determination proposes a 50% reduction in innovation funding . However, it is noted that innovative projects can still be considered at a later point.
8.4 For the ex-ante request we are proposing allowances of £4.7m which is equivalent to 53.5% of the business plan request. There is however the potential to increase this allowance on provision of acceptable supporting information.
8.5 Any project not approved as part of our final determination can be reconsidered at a later date if further detail and justification is provided.
- ***8.6d - Only one window of opportunity for innovation application can be made at the mid-point of the price control.***
By its very nature innovation is dynamic and unpredictable. Whilst DAERA notes that there will be an opportunity to re-open the price control discussions for innovations, the opportunity to do this once per 5 years is in our view contrary to what regulators are doing on parts of these islands and internationally. Innovation in network development is vital in our view, and therefore we think there is a need to provide greater opportunities for NIEN to innovate throughout the PC7 period. We would suggest that two windows at a minimum are allowed for.

- Is there any possibility of increased public access to electric vehicle charging as part roll out of electric vehicle charging infrastructure at NIE Networks operational sites and central substations. I.e. Can public charging points also be made available where possible?
- DAERA welcomes that ***NIE Networks has committed to a target of 80% of overall losses being supplied from renewable sources. This aligns with Climate Change Act (Northern Ireland) 2022 target of 80% of electricity consumption from renewable sources by 2030.*** (Losses are the difference between the electrical energy entering the network and leaving it that arises for technical and other reasons.)
- DAERA welcomes NIE Networks commitments to reduce air, ground and water pollution risks from SF6 (Sulphur Hexafluoride) gas and oil which is a potent greenhouse gas and risk to watercourses respectively.
- It is imperative that the electrical transmission and distribution networks are upgraded and managed to allow the deployment of renewable energy that will be required to ensure that Northern Ireland meets the targets in the Climate Change Act.
- DAERA welcomes that a 'net zero' reopener is included in the RP7 Price Control which will enable NIE Networks to adapt to major changes in the delivery of net zero.

Climate Adaptation

- DAERA notes that the earlier 'RP7 Approach' document highlighted the need for the electricity network to take account of the impact of climate change (adaptation) In particular, the impact that increased occurrences of severe weather events and flooding may have on infrastructure, and a requirement for a plan to be developed which identified the impact on the network, and steps to be taken to manage those risks. Reference to the need for climate adaptation (resilience), however, is not included within the draft determination.
- Under the Climate Change Act 2008, there is a requirement under section 60 for Departments to set out their policies and proposals in response to the risks in the latest UK Climate Change Risk Assessment (CCRA). The CCRA includes specific climate risks of relevance to the electricity network. We would welcome the development of a specific network climate resilience plan which sets out the associated risk management steps for incorporation into future climate adaptation programmes.

Public Body Reporting

- DAERA also notes that the consultation states that:
 - a) ***“The RP7 Price Control is due to be effective from 1 April 2025 to 31 March 2031”;***

- b) ***“ NIE Networks will attempt to quantify the embodied carbon of activities and equipment in order to first establish a baseline, then targets and a monitoring and reporting process”;***
 - c) ***“...we believe NIE Networks' existing regulatory and legislative reporting requirements to be sufficient, particularly with the addition of Streamlined Energy and Carbon Reporting legislation from 2019”;*** and
 - d) ***“We would therefore welcome views from stakeholders during the consultation period on whether the requirement to publicise an annual environmental report should be introduced as a reputational incentive.”***
- Section 42 of the Climate Change Act Northern Ireland 2022 requires DAERA to make regulations ('section 42 regulations') which will place climate change reporting duties on specified public bodies. NIE fall within the definition of a 'public body' under the meaning of section 42 of the Act. NIE may therefore be subject, in the future, to mandatory reporting on climate change (covering both adaptation and mitigation) by section 42 regulations (and/or amending section 42 regulations). Price Control Determination should therefore consider the potential for statutory reporting requirements to be placed on them by future section 24 regulations. Also, that voluntary reporting on climate change mitigation and adaptation by NIE, in the interim, maybe requested by invitation by DAERA in this regard.
 - Publication of any environmental reports by NIE is important for full transparency and accountability and would therefore be welcomed by DAERA.

Carbon Budgets and Climate Action Plan

- The development and delivery of an electricity network that supports the integration of renewable electricity and smart systems will be fundamental to the delivery of the policies and proposals contained within the forthcoming Climate Action Plan (CAP) and by extension meeting the 2023-27 and 2028-32 carbon budgets. In order to reduce emissions in a number of sectors of our economy, it is necessary to electrify most aspects of power, heat and transport and for these to be powered by renewables. Therefore, the RP7 process has a direct and fundamental impact on the delivery of CAP and carbon budgets.
- It is clear that, in the development of their proposals, NIEN has been aware of and informed by the recent climate legislation and all that this brings. NIEN cannot however, have considered the impacts of carbon budgets, 2030 targets or the policies and proposals contained within the CAPs that will cover the RP7 period since the budgets and targets are yet to be set and a draft CAP consulted upon. DAERA would urge the Utility Regulator to ensure that there is flexibility built into the process to allow NIEN to be able to respond to carbon budgets, targets, and CAP policies as and when they are published. This is likely to require much greater flexibility than the draft determination proposes thereby allowing NIEN to adapt to these CAP related targets and

policies, as opposed to having to continue to deliver what they had modelled when this demonstrably may not be what is required as time passes.

- While the budget proposed is less than what NIEN had requested, it would appear to be consistent with the business plans goals set out in the NIEN submission. It is also important to have the access to the labour, fleet, buildings and materials required to deliver the capital interventions. DAERA has some concerns that the draft determination will impact the deliverability of all aspects of what is required to deliver the RP7 objectives including capital and operating costs.
- The draft determination has two very notable exceptions in terms of baseline assumptions as set out at para 12.10:
 - i. The roll out of a smart meter programme; and
 - ii. The development of a new grid connections charging policy.
- In DAERA's view, these 'uncertainties' are so fundamental to any determination that should changes occur to either of these areas in the period of RP7, this would fundamentally alter the basis upon which the determination is made. This is particularly the case with any changes to the current connections policy framework and associated charging. The July 2023 joint DfE/UR Call for Evidence on a review of connections charging policy outlined very significant amendments and options for changing how customers are charged for grid connections. Equally any changes to this policy will have a fundamental impact on the delivery of carbon budgets and policies in Climate Action Plans. Intuitively if a 'shallower' charging policy is taken forward this is likely to facilitate the development of more renewable electricity projects thus the need for more substations and conductors and probably earlier than planned. If, however, we retain the 'partially deep' or indeed if we were to adopt a 'deep' charging connection policy, these are likely to have a very material impact on the viability of projects and therefore on the amount of substations/conductor required.
- DAERA would request that urgent that rapid progress is made on connections charging policy given the inherent linkages between the delivery of renewables and the charging policy that developers are subject to so that certainty is provided to those wishing to connect.