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NORTHERN IRELAND AUTHORITY
for ENERGY REGULATION



All-Island Energy Market

A Development Framework

November 2004

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MINISTERIAL FOREWORD

We, as Ministers, are charged with ensuring that our respective communities and economies have access to safe, secure and sustainable energy supplies, obtained through competitive energy markets. Both Governments agree that this challenge can be met more effectively and to our mutual benefit if we work together. This is especially appropriate when set in the context of the regional approach to development of energy markets being pursued as part of the European Union's drive to create a EU-wide Internal Market in electricity and natural gas.

This Development Framework sets out the commitment of our Governments to meeting that challenge through the creation of an All-island Energy Market. This involves collaboration on issues ranging from improved interconnection, competitive markets and harmonised trading arrangements, through to generation adequacy, security of supply, sustainable energy and energy efficiency measures.

One of the short-term priorities is to establish all-island wholesale electricity trading arrangements. As we move into the medium term, priorities will include establishment of the all-island gas market, in line with commissioning of the infrastructure. A longer-term aim will be to maximise the benefits of environmentally sustainable energy; from rapidly maturing wind generation and the combined heat and power business, through to the growing rural biomass energy industry and the future promise of substantial energy from the sea.

We thank all who contributed to the consultation process for their very positive response to the road map set out in this paper. The Joint Steering Group will continue to address the issues raised through ongoing dialogue with the energy sector and those bodies representing the interests of industry, business and domestic consumers.

There is much to do and both Governments will play their part. We have been encouraged by the widespread and enthusiastic support for the All-island Energy Market and are confident that the challenge will be met. The issues are complex and sometimes competing and not all of the benefits will be deliverable in the short term. The long-term reward, however, will be a market that is much better placed to meet the future energy needs of the whole island.



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INTRODUCTION

This paper sets out the policy context for action by the two Governments, regulatory authorities and industry in creating an All-island Energy Market. It has been prepared by the Department of Communications, Marine and Natural Resources (DCMNR) and the Department of Enterprise, Trade and Investment (DETI), and the two regulatory authorities - Commission for Energy Regulation (CER) and the Northern Ireland Authority for Energy Regulation (NIAER).

Senior members of DCMNR, DETI, CER and NIAER form the membership of the All-island Energy Market Joint Steering Group (JSG), which was established by Ministers in July 2003 to oversee development of the market.

BACKGROUND

Co-operation on common energy issues has been long standing, with both Governments having a shared interest in more competitive energy markets, reduced energy costs and improved reliability of supply. This work is set against the background of the European Union's (EU) single market for electricity and natural gas and the growing regionalisation of markets.

An Energy Industry Information Forum, hosted by Ministers Dermot Ahern, T.D. and Ian Pearson MP, took place in March 2004 to inform the electricity, gas and renewable energy industries about the work of the JSG and engage key stakeholders in pursuing the objective of the All-island Energy Market.

A consultation paper was subsequently issued in June 2004 to stimulate further debate and help determine how that objective could be met most effectively. The formal responses and discussions with various energy sector interests demonstrated strong support for further

development of the market. This Framework reflects the views and comments arising from that process.

Another significant step forward was the publication of a Memorandum of Understanding between NIAER and CER in August 2004, which sets out how the two regulatory authorities will co-operate on implementation of the All-island Electricity Market.

POLICY CONTEXT

Recognising that a cross-border energy market already exists albeit in an embryonic form, there is an accepted need to ensure that:

- Policy developments in both jurisdictions are progressed in ways which advance the goal of improved economic and energy supply benefits for both parts of the island.
- Policies are developed to exploit opportunities for enhancing the value of the energy industries on the island, through external links with Great Britain and continental Europe.
- The energy policy agenda is broadened beyond traditional market development issues to take account of national and international concerns with combating climate change. More specifically, there is a need to pursue renewable energy and energy efficiency opportunities where the benefits can be enhanced by acting on an all-island basis.
- Market structures are integrated, and infrastructure investment is secured, in order to improve island-wide efficiencies in the sector.
- The activities of the regulatory authorities and transmissions system operators are fully co-ordinated. It is envisaged that this would lead ultimately to unified regulatory and system operator arrangements for the

island as a whole and geared to the delivery of measurable benefits. Separate structures may, however, still be required to oversee the local market in each jurisdiction.

- The necessary policy, legislative and administrative arrangements to implement the development programme are identified quickly so that necessary action can be taken in a timely and effective manner.
- The vision of an All-island Energy Market is translated into reality by identifying the short, medium and long-term priorities that need to be addressed. The timescales for this process to be set within the wider context of the strategic development of the EU Internal Market for electricity and gas.

Energy issues are complex, frequently inter-related and are often associated with long-term investment decisions. There are also the differing stages of development between the electricity and natural gas markets and infrastructure. Consequently, achieving the optimum outcome for the entire range of energy policy issues is a necessarily time-consuming process requiring the support, commitment and active co-operation of all stakeholders if the benefits of the all-island market are to be secured.

It should also be recognised that certain policy areas (e.g. taxation and emissions trading), which can have a direct impact on the achievement of the All-island Energy Market, are outside the immediate control of the two Departments and regulatory authorities.

Ministers have confirmed that any policy, legislative, structural, institutional or resource issues that may unfavourably affect the

development or effective functioning of the All-island Energy Market, and which may arise in the course of implementing this strategy, will be carefully examined and addressed, in conjunction with the relevant agencies. The aim will be to pursue complementary actions, as far as possible.

DEFINITION

Within the policy context established by both Governments, the All-island Energy Market has been defined by the JSG, and accepted by industry consultees, as follows:

“An All-island Energy Market should provide for competitive, sustainable and reliable markets in electricity and natural gas on the island of Ireland at the minimum cost necessary. It should operate in the context of the EU internal energy market and should deliver long-term economic and social benefits that are mutually advantageous to Northern Ireland and the Republic of Ireland. Customers, irrespective of where they live, should be free to source their energy needs from suppliers and service providers anywhere on the island and generators be able to participate freely regardless of the jurisdiction.”

BENEFITS

The test by which the value of a fully integrated All-island Energy Market should be judged is that energy users in both parts of the island are better off than they would be in two smaller markets which are mutually supportive good neighbours, but which trade together opportunistically rather than systematically.

The potential benefits of a mature All-island Energy Market should include the following:

- Larger, single market with competitive energy prices.
- Open and transparent competition at all levels in the marketplace and for all energy sources, including combined heat and power (CHP) and renewables.
- A more stable and attractive investment location.
- Consequential improvements to national and international competitiveness of the wider industrial sector.
- Greater security of supply.
- A robust, integrated infrastructure.
- Sharing a more diverse energy mix.
- Greater energy efficiency.
- Greater consumer choice of supplier of energy or of energy services.
- Longer term savings through rationalisation of functions in regulation, system operation and transmission asset planning and ownership.
- Improved organisation of energy research through the emergence of an all-island network of academic and industry expertise.

SHORT TO MEDIUM TERM PRIORITIES

Arising from the consultation process the JSG has agreed the following development priorities, which require action in the short to medium term:

- **Infrastructure:** A key enabler for an All-island Energy Market is the removal of existing gaps and bottlenecks in electricity or gas infrastructure that adversely affect cross-border trade. Key elements will be the construction of a second electricity interconnector and network reinforcements, as recommended by the regulatory authorities and announced by the Ministers in November 2004, and the completion of the Northern Ireland gas project, which

includes a pipeline between Gormanstown and Antrim, linking the two networks.

- **Trading Arrangements & Investment:** A single wholesale electricity market is a critical element of a successful all-island market. Trading arrangements should be transparent, integrated and facilitate free flowing trade in energy on an island-wide basis. In turn, this should help create a clear and stable environment in which informed and sound investment decisions can be taken.

In developing common trading arrangements, transmission network related policy, functions and activities would be affected. These include transmission connection policy, tariff methodology and planning criteria. This will require a harmonised approach to ensure investors and customers locating in either jurisdiction are afforded equal treatment on access and charges.

- **Dominance and Market Power:** A co-ordinated approach to address the issue of dominance and market power effectively in a transparent and verifiable manner will be pursued by the regulatory authorities in parallel with the development of the wholesale trading arrangements. The Departments will have a role in addressing aspects of the dominance issue which lie beyond the remit of the regulatory authorities.

- **Sustainable Development:** The All-island Energy Market should be capable of meeting the increasing energy requirements of the island in ways that are compatible with national and EU sustainable energy policies and targets. Policies should be developed that encourage and facilitate greater contributions from renewables, CHP

and energy efficiency. The JSG has established the Sustainable Energy Working Group to lead on and co-ordinate all-island activity under this strand.

- **Legislative and Administrative:** Changes in legislation may be required to ensure the successful delivery of the new single market. In order that legislative or administrative barriers do not limit or curtail the implementation of the All-island Energy Market, or create investor or market uncertainty, the regulatory authorities will ensure that the Departments are made aware of any such requirements that need to be implemented.
- **Retail Market Design:** The development of common retail market design and systems will be considered by the regulatory authorities to ensure compatibility.

IMPLEMENTATION

The JSG will continue to have a strategic oversight role on All-island Energy Market development with membership comprising the two Departments and the two regulatory authorities. There will be ongoing consultation with energy sector stakeholders.

The regulatory authorities will be jointly responsible for managing implementation of the All-island Energy Market. They will involve relevant energy sector interests through the establishment of appropriate stakeholder and technical groupings.

A Development Programme for implementing the All-island Energy Market is attached at Annex A, with an initial estimate of timeframes. More detailed work streams with project specific action plans and target dates will supplement this Programme, as it is rolled out. Both the Programme, and the additional information on workstreams, will be published on a dedicated website which is being developed by the regulatory authorities.

CONSULTATION

Copies of the submissions received as a result of the consultation exercise undertaken over the summer of 2004 can be found on the DETI and DCMNR 'Energy' websites at:

www.energy.detini.gov.uk and

www.dcmnr.gov.ie

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NIAER and CER All-island Energy Market website:

www.allislandproject.org

Annex A

Development Programme – All-island Energy Market

Strategic Goal	Key Outcomes	Time Frames	Lead Responsibility
ELECTRICITY			
1. Wholesale Market Design			
Single wholesale trading arrangements	– Common trading arrangements	2004-2007	Regulatory Authorities
Requirement for single market operator	– Establishment of single market operator	2004-2007	Regulatory Authorities
Treatment of dominance	– Co-ordinated approach to address dominance and market power effectively in a transparent and verifiable way	2004-2007	Regulatory Authorities
2. Infrastructure & Transmission Policy			
North/South interconnection	– Decision on need for additional North/South interconnection	late 2004	Regulatory Authorities and Transmission System Operators (TSOs)
Facilitating renewables	– Plan for optimising network development to facilitate renewables	2005	Regulatory Authorities and TSOs
Transmission connection policy	– Common connection policy	2004-2007	Regulatory Authorities
Harmonise transmission tariffs	– Common transmission tariff methodology	2004-2007	Regulatory Authorities
Joint transmission system planning	– Harmonisation of transmission planning based on findings of joint transmission planning study	2004-2007	Regulatory Authorities and TSOs
Ancillary services	– Harmonisation of services and agreements and cost recovery mechanisms	2004-2007	Regulatory Authorities and TSOs
Treatment of losses	– Common treatment of losses	2004-2007	Regulatory Authorities and TSOs
Common Grid Codes	– Alignment of required aspects of Grid Costs	2004-2007	Regulatory Authorities and TSOs
	– Common Distribution, Grid and Metering Codes	2007-2009	Regulatory Authorities and TSOs

Strategic Goal	Key Outcomes	Time Frames	Lead Responsibility
Common Generation Adequacy Reports (GARs)	– Co-ordinated release of GARs by TSOs with a common methodology used to determine requirements in both jurisdictions	2007-2008	Regulatory Authorities and TSOs
	– Publication of a single GAR	2009-2010	Regulatory Authorities and TSOs
Demand-side management	– Consistent approach to demand-side management	2007-2009	Regulatory Authorities and TSOs
Harmonise reporting, planning and methodology arrangements	– Consistent methodologies and reporting arrangements for Transmission Forecast Statement	2007-2009	Regulatory Authorities and TSOs
	– Common Transmission Planning Criteria	2007-2009	Regulatory Authorities and TSOs
Single TSO	– Examination of benefits and requirements for creation of all-island single TSO	2009-2010	Departments and Regulatory Authorities
3. Retail Market			
Common retail market design and systems	– Review of the development of retail market design and systems to ensure structural differences do not occur	2004-2007	Regulatory Authorities
Meter policy	– Common metering policy	2007-2009	Regulatory Authorities
Supplier of last resort	– Consideration of common approach to supplier of last resort	2007-2009	Regulatory Authorities
4. Licensing and Other Issues			
Licensing frameworks systems	– Harmonisation of licence conditions and procedures for participants, as required, in both jurisdictions	Commencing 2005	Regulatory Authorities
Customer codes and protection	– Consistent codes of practice required for network operators and suppliers	2007	Regulatory Authorities

Strategic Goal	Key Outcomes	Time Frames	Lead Responsibility
Align Allowed Revenue Review period for network companies	– Consideration of requirement to align allowed review period for network companies	2007	Regulatory Authorities
NATURAL GAS			
1. Infrastructure			
North West pipeline	– Construction and commission	by end 2004	BGÉ
Gormanstown to Antrim pipeline	– Construction and commission	2006	BGÉ
Security of supply	– Decision on security of supply in relation to the pipeline from Moffat to Twynholm in Scotland	2005	Departments and Regulatory Authorities
2. Infrastructure and Transmission Policy			
Transmissions tariffs	– Determination of way forward on scope of harmonisation of transmission tariffs and other Gas Market arrangements	2005-2006	Departments, Regulatory Authorities and TSOs as appropriate
As part of this process consideration would need to be given to the following issues	– Alignment of Network Codes	2005-2006	Departments, Regulatory Authorities and TSOs as appropriate
	– Common connection policy	2005-2006	Departments, Regulatory Authorities and TSOs as appropriate
	– Co-ordinated releases of Gas Capacity Statements with a common methodology	2005-2006	Departments, Regulatory Authorities and TSOs as appropriate
	– Creation of an all-island TSO	2005-2006	Departments, Regulatory Authorities and TSOs as appropriate
	– Scope for a common approach on storage and liquefied natural gas	2005-2007	Departments, Regulatory Authorities and TSOs as appropriate

Strategic Goal	Key Outcomes	Time Frames	Lead Responsibility
SUSTAINABLE ENERGY			
1. Emissions Trading			
Cost of carbon/emissions trading	– Harmonisation to maximum extent possible of policies in relation to the pass through of costs of carbon in the emissions trading regime	2004-2007	Departments and Regulatory Authorities
	– Examination of implications of different approaches being taken to tax on carbon for the non-traded sector	2004-2007	Departments
2. Renewable Energy			
Wind energy market policy	– Co-operative development on policy	Commencing 2004	Regulatory Authorities
	– Complimentary incentivisation (not support) schemes	Commencing 2005	Regulatory Authorities
Non-wind renewables	– Pursuit of complementary approach to development of policies/strategies/action plan on other renewable technologies	Commencing 2004	Departments and SEI
Support mechanisms	– Assess potential for pursuit of complementary support mechanisms for renewable energy technologies including promotional activities	Commencing 2005	Departments, SEI and Action Renewables
3. Energy efficiency			
Energy efficiency policy formulation	– Collaboration on proposals, focussing on implementation of EU Directives on energy in buildings and energy services	Commencing 2004	Departments, and SEI
All-island energy efficiency promotion	– Harmonisation of arrangements for promoting energy efficiency	Commencing 2004	SEI and Action Renewables
Regulatory incentives	– Identification of best practice for incentivising energy suppliers to promote the efficient use of energy	Commencing 2004	Departments, Regulatory Authorities and SEI

Strategic Goal	Key Outcomes	Time Frames	Lead Responsibility
<p>CO-ORDINATION OF REGULATORY ACTIVITIES</p> <p>Legal mandates</p> <p>Industry structure</p> <p>Single regulatory body</p>	<ul style="list-style-type: none"> – Extension, as necessary, of legislative requirements and mandates for regulatory authorities – Consistent unbundling and ring fencing measures in both jurisdictions – Examination of benefits and requirements for creation of all-island regulatory body and need for separate local market bodies 	<p>Commencing 2004</p> <p>Commencing 2004</p> <p>2009-2010</p>	<p>Departments and Regulatory Authorities</p> <p>Departments and Regulatory Authorities</p> <p>Departments and Regulatory Authorities</p>
<p>RESEARCH AND INNOVATION</p> <p>Co-operation on energy research</p>	<ul style="list-style-type: none"> – Review of existing energy research environment – Establishment of a formal mechanism to progress this co-operation, if required 	<p>2004-2005</p> <p>2005</p>	<p>Departments</p> <p>Departments</p>
<p>OTHER ISSUES</p> <p>EU Energy Directives</p> <p>All-island diversity, security of supply and continuity of supply</p>	<ul style="list-style-type: none"> – Harmonisation, to maximum extent possible, of relevant EU Energy Directives implementation – Co-operation on diversity, security of supply issues to maximise mutual benefit – Co-ordination of emergency planning arrangements/ notifications 	<p>Commencing 2005</p> <p>Commencing 2005</p> <p>Commencing 2005</p>	<p>Departments</p> <p>Departments</p> <p>Departments, Regulatory Authorities and TSOs</p>

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