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.

Barry Gardiner MP,
Minister with responsibility for Enterprise, Trade and Investment, Northern Ireland

Noel Dempsey T.D.,
Minister for Communications, Marine and Natural Resources, Ireland

November 2004
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 JSQ, 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
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| Common Generation Adequacy Reports (GARs) | - Co-ordinated release of GARs by TSOs with a common methodology used to determine requirements in both jurisdictions  
  - Publication of a single GAR | 2007-2008 | 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  
  - 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

<p>| 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 |</p>
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As part of this process consideration would need to be given to the following issues...
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Alternative formats including braille, large print, disc, audio cassette or in minority ethnic languages are available on request.