

# Gas to the West Licence Decision

11 February 2015



# About the Utility Regulator

The Utility Regulator is the independent non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries, to promote the short and long-term interests of consumers.

We are not a policy-making department of government, but we make sure that the energy and water utility industries in Northern Ireland are regulated and developed within ministerial policy as set out in our statutory duties.

We are governed by a Board of Directors and are accountable to the Northern Ireland Assembly through financial and annual reporting obligations.

We are based at Queens House in the centre of Belfast. The Chief Executive leads a management team of directors representing each of the key functional areas in the organisation: Corporate Affairs; Electricity; Gas; Retail and Social; and Water. The staff team includes economists, engineers, accountants, utility specialists, legal advisors and administration professionals.

## Our Mission

Value and sustainability in energy and water.

## Our Vision

We will make a difference for consumers by listening, innovating and leading.

## Our Values

Be a best practice regulator: transparent, consistent, proportional, accountable, and targeted.

Be a united team.

Be collaborative and co-operative.

Be professional.

Listen and explain.

Make a difference

Act with integrity.

# Abstract

In order to facilitate the extension of the Northern Ireland natural gas network to towns in the west of Northern Ireland, new licences must be granted by the Northern Ireland Authority for Utility Regulation. The Authority launched the application process for the licences on 6 February 2014 and eight applications were received.

The Authority has carried out an assessment of these applications against the criteria which the Department of Enterprise Trade and Investment have determined. This process resulted in the Authority identifying both a preferred applicant and a reserve applicant for each licence.

A consultation on the conditions of the high pressure licence and the low pressure licence was published on the Utility Regulator website on 18<sup>th</sup> December 2014. This document summarises the responses received to the consultation and any changes made to the licences as a consequences. The final text of the conditions within each licence is also published in full alongside this paper. Any changes made to the licence drafts consulted on are marked in red.

# Audience

The preferred and reserve applicants for the conveyance licences in the west of Northern Ireland, potential investors in Northern Ireland gas network assets, regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

# Consumer impact

Research conducted on behalf of the Department of Enterprise Trade & Investment (DETI) indicates that potentially 40,000 domestic and commercial customers will connect to the new gas network in Tyrone and Fermanagh. These customers will benefit from lower energy costs and society as a whole will benefit from lower carbon and other emissions.

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# 1.0 Introduction

## 1.1. Introduction

1.1.1 In January 2013 the Northern Ireland Executive agreed to provide grant funding of up to £32.5m to facilitate the extension of the Northern Ireland natural gas network to the following towns:

- Dungannon including Coalisland;
- Cookstown including Magherafelt;
- Enniskillen including Derrylin;
- Omagh;
- Strabane.

1.1.2 In order to convey gas to these towns, new or extended gas networks will need to be constructed. The owners of these networks will require licences to be granted to them by the Northern Ireland Authority for Utility Regulation (**the Authority**) under Article 8 of the Gas (Northern Ireland) Order 1996 (**the Gas Order**).

1.1.3 Both the Authority and DETI have consulted with stakeholders for over three years on the project to extend the Northern Ireland natural gas network – colloquially known as the Gas to the West (or **G2W**) project<sup>1</sup>. The Authority has published all of the key materials on a special project page set up on its website<sup>2</sup>, and there are further important materials published by DETI.

1.1.4 The Authority issued its consultation on Provisional Decisions on the 12<sup>th</sup> October 2014 with the Final Decisions issued on the 18<sup>th</sup> November 2014. As per the decision paper the Authority proposes to grant two gas conveyance licences in respect of the networks:

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<sup>1</sup> The acronyms 'GTTW' and 'GTW' are also sometimes used in documents that are referred to or quoted in this document; all are descriptors of the same thing.

<sup>2</sup> [http://www.uregni.gov.uk/gas/projects/gas\\_to\\_the\\_west\\_initiative/](http://www.uregni.gov.uk/gas/projects/gas_to_the_west_initiative/)

- a. one licence relating to the high pressure assets needed for the distribution of gas to the designated towns.
  - b. the other licence relating to low pressure assets in the designated towns that are required for the distribution of gas to individually connected supply points.
- 1.1.5 Each licence will be 'exclusive'. This means that, once it has been granted, no new gas conveyance licence can be granted in relation to the area covered by that licence for a specified period.
- 1.1.6 The Authority intends the exclusivity period to be five years in the case of the high pressure licence and twenty years in the case of the low pressure licence. For that reason, and since a number of companies expressed interest in obtaining the licences and developing the networks, the Authority has facilitated a competition to determine who should be granted the licences.
- 1.1.7 The Authority launched the application process for the licences on 6 February 2014. The period during which applications could be submitted closed at noon on 6 May 2014. Eight applications (**the applications**) were received from the companies (**the applicants**) set out in the table below.

<b>High pressure licence applications</b>	<b>BGE (UK) Ltd</b> – application connected to the firmus Energy Distribution Ltd low pressure application.
	<b>BGE (UK) Ltd</b> – unconnected application.
	<b>Northern Ireland Energy Holdings Ltd</b> – application connected to the Scotia Gas Networks (Northern Ireland) Ltd low pressure application.
	<b>Phoenix Natural Gas Ltd</b> – application connected to the Phoenix Natural Gas Ltd low pressure application.
<b>Low pressure licence applications</b>	<b>firmus energy Distribution Ltd</b> – application connected to the BGE (UK) Ltd high pressure application.

	<b>firmus energy Distribution Ltd</b> – unconnected application.
	<b>Phoenix Natural Gas Ltd</b> – application connected to the Phoenix Natural Gas Ltd high pressure application.
	<b>Scotia Gas Networks (Northern Ireland) Ltd</b> – application connected to the Northern Ireland Energy Holdings Ltd high pressure application.

1.1.8 The Authority has carried out an assessment of these applications against the criteria which the Department of Enterprise Trade and Investment (**DETI**) have determined and published for that purpose under Article 8(7B) of the Gas Order (**the Criteria**).

1.1.9 Following this assessment the Authority provisionally identified both a preferred applicant and a reserve applicant for each licence. The Authority’s provisional conclusions were published for consultation on 12 August 2014 and responses were sought by 7 October 2014. Five responses were received by the deadline and the Authority has carefully considered each of these responses.

1.1.10 Subsequently the Authority’s final decision, published on 18 November 2014, confirmed NIEH and SGN as the preferred applicants for each licence.

	<b>Gas Conveyance Licence Awarded</b>	
	<b>High Pressure</b>	<b>Low Pressure</b>
Preferred Applicant	NIEH (Mutual Energy)	SGN (Scotia Gas)
Reserve Applicant	BGE UK	firmus

1.1.11 As required by article 8(4) the Gas (Northern Ireland) Order 1996 the Authority published notice of its intention to grant each of the licences and provided a period of not less than 28 days for representations with respect to the proposed licences. The licence consultation was published on 18<sup>th</sup> December 2014.

## **1.2. Purpose of this document**

1.2.1 This document summarises the response received to the consultation and explains any changes we have made to the licences consulted on. All changes are minor as explained below.

1.2.2 For explanatory reasons all changes made to each licence are marked in red and published alongside this document. Clean copies of the final licences as granted are available on the Authority's website.

## **1.3. Structure of this Document**

1.3.1 This document contains the following sections:

- Section 1: Introduction – This summarises the steps in the competition to date and sets out the purpose and structure of this document. It also sets out the Authority's next steps;
- Section 2: Response received to the consultation– This summarises the main changes we propose to the standard conditions from those published alongside the Applicant Information Pack;
- Section 3: UR response and changes to the licences- This summarises the changes to the High Pressure Licence and Low Pressure Licence we have made since the consultation.

## **1.4. Next steps**

1.4.1 The Authority granted the high pressure and low pressure licences on 11th February. Copies of the final licences as granted are available on the Authority's website.

## 2.0 Response to the consultation

### 2.1. firmus response

2.1.1 One response to the licence consultation was received from firmus and is published alongside this document. This did not propose any changes to the conditions of the G2W licences but was instead concerned with how the LP G2W licence might impact on the firmus licence.

2.1.2 firmus raised two broad concerns in its response:

- a. The LP licence area includes a pipeline corridor to the Strabane area that is within firmus' current exclusive licensed area;
- b. Where the UR proposes to modify existing gas conveyance licences to bring them into line with the G2W licences, firmus stated that there should be consultation on changes. firmus also expressed concern that the common branding and common tariff requirement in the LP G2W licence might be extended to firmus.

### 2.2. UR response

2.2.1 The inclusion of the pipeline corridor to the Strabane area within the G2W licence is an inevitable consequence of the route design. In fact the corridor has been part of G2W since 2009, when the original FMA study was conducted.

2.2.2 We do not regard this approach as having an adverse effect on the firmus licence. The area of the pipeline corridor will be very narrow and would only impact on a very small number of customers who reside some distance from the firmus network. firmus will retain exclusivity over the rest of the Ten Towns licence area.

2.2.3 In relation to health and safety issues along this pipeline we agree with firmus that this is an important matter. We are committed to liaising with both licensees to ensure they adopt best practice in clarifying processes and procedures in this area before gas goes live on the new pipeline.

- 2.2.4 We have amended Schedule 3, Paragraph 1.2 of the G2W licence from the version that was consulted on to reflect that the pipeline corridor for the connection of the Strabane area will form part of the G2W licensed area, but not the G2W exclusive area.
- 2.2.5 Future changes to the firmus licence will be necessary to ensure that this corridor remains within the firmus licensed area but is no longer subject to exclusivity.
- 2.2.6 The comments on exclusivity raise the general question of the role of exclusivity within the NI gas industry. Furthermore, issues raised by other market participants have focused on the structure of the gas industry and the interaction between high pressure and low pressure users.
- 2.2.7 The NI policy on exclusivity has resulted in all users being connected to the low pressure networks which all have exclusivity in their areas. The only users directly connected to the high pressure network are the two power stations which are clearly differentiated from all other users by their size. This policy has been very successful in growing the network in NI for the benefit of domestic and industry customers alike. However, it is clear from participant's comments that some further detail on this policy might be of benefit.
- 2.2.8 We therefore intend to expand on the policy background and implications by means of a regulatory letter. Consideration of further changes to the connection policies and network codes of the high pressure licensees may be necessary to ensure they explicitly incorporate the policy.
- 2.2.9 On the second point raised by firmus there is a statutory requirement to consult on any licence modifications. In relation to common branding firmus will be aware that this has been an issue for some time, including in GD14. We also note the firmus application for the G2W LP licence which stated that 'synergies could be derived in rolling out uniform natural gas brand messaging for Northern Ireland,' (firmus Operational Business Plan, p.86).

## **2.3. Minor licence changes**

### **High Pressure licence**

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- 2.3.1 We have made one change for clarity in the HP licence at condition 4.3.1. (replicated below). The purpose of this is to ensure that if any adjustments in revenue are approved by the Authority during the year, these can be properly taken account of.

4.3.1 Revenue Restriction if no Designation Order

In respect of any period during which a Designation Order is not in force in relation to the Network, the Licensee shall use its reasonable endeavours to ensure that in each Gas Year during that period its total revenue, **plus any adjustments approved by the Authority**, shall not exceed the Actual Required Revenue for that Gas Year.

- 2.3.2 We have otherwise made minor changes to the HP licence to ensure consistency with the LP licence, or to correct condition references, typographical and formatting errors. The consultation paper at 2.1.6 signalled that we may make minor changes to the licence before grant.
- 2.3.3 In relation to Postalised Distribution Pipelines there were no responses to this aspect of the consultation. In determining an amount for these pipes to be included in the HP licence we intend to follow the principles set out in the consultation paper.
- 2.3.4 All changes to the HP licence consulted on are marked in red in the attached HP licence.

**Low Pressure licence**

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- 2.3.5 As outlined above we have made a minor change to ensure that the pipeline corridor in the Strabane area is included in the G2W licensed area, but not the G2W exclusive area.
- 2.3.6 The General Development Plan in Annex 3 Part 3 has been updated to reflect the current approach on how the network will be developed and rolled out.
- 2.3.7 Otherwise, we have made minor changes to the LP licence, either for clarity or to correct for e.g. typographical and formatting errors.
- 2.3.8 All changes to the LP licence consulted on are marked in red in the attached LP licence.