

BGE Gas Licences Consultation

On 15 February 2005 Ofreg published draft BGE Conveyance and Supply Licences for public consultation. There were 6 responses in total from: The General Consumer Council (GCC), Northern Ireland Housing Executive (NIHE), Phoenix Natural Gas, Sinn Féin, Thermacad Energy Consultancy and a respondent who wishes to remain anonymous.

The following main points were made by the respondents.

1. Development of the Gas Industry

There was general welcome for the development of the natural gas industry outside Greater Belfast and references were made to the economic, environmental and social benefits.

2. Development Plan Targets

Some concern was expressed about the level of the targets for premises to which gas is to be made available and in particular the number of existing owner-occupied premises which are to have access to gas.

Phoenix pointed out that the BGE licence does not require the same penetration of existing owner-occupied premises as required by Phoenix's Development Plan for their licensed area.

Sinn Féin expressed concern that the targets were somewhat limited given the geographical area involved and also that if the number of domestic properties to be connected is limited it would have a detrimental impact on reducing fuel poverty.

Sinn Féin's view is that the greatest level of coverage possible should be made available to the greatest number of customers.

Ofreg response

The BGE targets have been agreed with Ofreg and are based on the proposals contained in the original BGE application. Ofreg has given these targets proper consideration and believes that they are reasonable given the need to maintain commercial viability and assuming no government help or intervention.

As far as the domestic market is concerned, Bord Gais intends to concentrate primarily on new build and NIHE properties and existing owner occupied domestic properties will be connected where it is viable to do so.

Ofreg acknowledges that the targets may require adjustment in the future if circumstances change. The targets could be adjusted in an upward direction, if for example some form of government assistance becomes available. The targets could be adjusted in a downward direction if the Authority is satisfied that Bord Gais is

prevented from meeting its targets because expected new build properties have not materialised or expected NIHE conversions have not materialised.

There are valid reasons why the scale of roll out in the towns can not viably match that in the Greater Belfast area. The reasons include, primarily, the need to maintain overall project commercial viability, recognising the limited potential industrial and commercial (I and C) load compared with Greater Belfast and the sparsity of population in the licensed area.

Another factor distinguishing the BGE licensed area from the Phoenix licensed area is the relatively limited use which can be made of the old towns gas networks. Phoenix were able to take advantage of the old networks which reduced the cost of network installation but, unfortunately, the old town networks in the BGE licensed area are much less extensive, the maps and records are not as available or reliable and the pipes themselves are in poorer condition.

3. Conditions 3.2.2 (a) and (b)

Phoenix pointed out that the drafting of Conditions 3.2.2 (a) and (b) could be open to misinterpretation.

Ofreg response

In essence, these Conditions permit BGE to make a case to the Authority (Ofreg) if BGE believe failure to meet targets is due to reductions in the planned NIHE refurbishment programme or the non-emergence of the new build domestic properties. For the avoidance of doubt Conditions 3.2.2 (a) and (b) have been re-drafted and are attached in Annex A.

4. Size of bulk and feeder mains

Phoenix suggested that the conveyance licence should oblige BGE to size bulk and feeder mains to make gas available to the same proportion of properties as in the Phoenix Licensed Area.

Ofreg response

BGE intend to optimize the design of the network and install a network of spine mains that will be capable to meeting the needs of all existing industrial and commercial customers, the forecast NIHE refurbishment programme, the estimated domestic new build development and a majority of existing domestic owner occupied properties.

The proposed network is designed to strike a balance between a minimalist roll-out for a pessimistic forecast of market development and a maximum roll-out based on an optimistic forecast of how the market will develop.

The maximum roll-out approach could result, at worst, in the project totally failing as it proved to be uneconomic, with disastrous effect.

The minimalist approach could result, at worst, in unnecessary additional cost and unattractive and unwelcome disruption with streets having to be dug up again.

In such circumstances the BGE approach is understandable, acceptable and reasonable.

5. Exclusivity in Additional Development Areas

Phoenix questioned why BGE has been given five years in which to bring forward development plans for areas and towns in their licensed area additional to the initial ten towns for which development targets have been agreed. Phoenix believe that potential customers in such areas are being disadvantaged and cannot understand what they describe as “the concept of exclusivity without obligations”.

Ofreg response

The situation is that BGE has been given a five year window in which to bring forward development plans for additional areas and towns which are acceptable to Ofreg. If BGE does not come up with acceptable plans within this time period the field will be thrown open for others to develop these areas.

Ofreg takes the view that the entire licensed area has to be considered as a package and this approach provides an incentive for BGE to bring forward development plans for additional areas as soon as possible. It is in BGE’s interest to develop their licensed area as quickly as possible subject to commercial viability.

The condition relating to Additional Development Areas simply allows for a longer planning period in respect of these areas. Therefore it represents the best possible chance of bringing gas to these areas in an economic efficient and coordinated manner.

6. Postalised Gas Prices

Sinn Féin expressed the view that gas prices should be postalised in the interests of equality and to ensure that no single area is disadvantaged.

Ofreg response

The postalisation arrangements recently put in place by Ofreg reflect the government policy of postalising charges to the town gate. Ofreg’s view is that these arrangements are suitable for the development of the gas industry and it would not be appropriate to include the distribution network costs as part of the postalised charge. As regards the final price of gas to customers, it is Ofreg’s understanding that BGE intend to have consistent pricing throughout their licensed area.

7. Gas Escapes

The GCC requested that BGE be required to alert the GCC to any escape of gas and provide information so that GCC may respond to queries from the public.

Ofreg response

Ofreg does not believe that such an obligation would be appropriate as there will be a set procedure in place to deal with gas leaks, involving the Health and Safety Executive, Fire Authorities, PSNI etc. There will be well publicised 24 hour telephone numbers which members of the public will be able to contact to notify gas leaks and to obtain information. The GCC should refer anyone seeking to report a gas leak or to obtain information to the relevant contact number. However BGE have stated that in practice they will seek to keep GCC informed regarding the process for dealing with gas leaks – but it will not be a specified licence condition.

8. CORGI Registration

The General Development plan contained within the Conveyance Licence states that gas installers will be required to be “CORGI registered or equivalent”. The GCC pointed out, correctly, that there is a legal requirement in Northern Ireland that all gas installers be CORGI registered, and GCC requested that the words “or equivalent” be deleted.

Ofreg response

The words “or equivalent” have been included in the licence to recognise that in the future there may be other bodies recognised as competent to authorise gas installers. Unless and until there are any other such bodies, gas installers will, of course, be required to be CORGI registered.

9. Social Obligations/Consumer Protection

The GCC suggested licence changes related to social obligations and consumer protection provisions including frequent meter reading, financial remedies if meters are not read, extending the definition of vulnerable customers and notification of the existence of the primary care register.

Sinn Féin made similar comments in relation to vulnerable customers.

Ofreg response

As these points have implications not just for the BGE licence but for the Phoenix and other licences they will be taken into consideration when the Standard Licence Conditions are reviewed later this year to take account of the requirements of the EU Gas Directive. Any proposed amendments to the Standard Conditions will be subject to consultation.

10. Publication of Conveyance Charges

A respondent sought confirmation from Ofreg that customers will benefit from the proposed separation and publication of conveyance charges.

Ofreg response

Customers will benefit. Under the terms in the BGE licence conveyance charges will be regulated from the outset and the average conveyance price cap for all categories of customers will be publicly available from day one. Conveyance charges for specific customer categories will be publicly available when supply competition becomes possible after five years and competing supply companies need the information. This arrangement will enable BGE to generate lower long term prices for all customers by setting charges so that the total connections to the network are maximised.

11. Conclusion

The Authority is grateful for the responses received and has given them due consideration. The Authority is content that, apart from the changes noted above regarding Conditions 3.2.2 (a) and (b), no further changes are necessary to the draft BGE Conveyance and Supply Licences as a result of the public consultation.

Annex A – Condition 3.2.2 (a) and (b)

3.2.2 Housing Executive & Regional Development Strategy

The Annual Target for any Development Area and any Gas Year shall be reduced by a number equal to the number of:

- (a) premises in that Development Area which are owned by the Northern Ireland Housing Executive or any housing association in Northern Ireland and which have not during that Gas Year been adapted for the consumption of gas; and
- (b) premises that are forecast to be constructed in that Development Area and that Gas Year in the timetable outlined in an estimated rollout plan (developed by the Licensee in accordance with the Department for Regional Development Regional Development Strategy Document for Northern Ireland 2025 “Shaping Our Future” (published on 20 September 2001) and agreed with the Authority) and which have not during that Gas Year been so constructed;

provided and to the extent that:

- (c) the Licensee is able to demonstrate to the Authority’s satisfaction that this shortfall in the number of premises so adapted and/or so constructed prevented the Licensee from meeting its obligations under Conditions 3.2.1, in which case the Authority shall make a consequent adjustment to the relevant Annual Targets for that Development Area in each subsequent Gas Year; and
- (d) in the event that any such premises are subsequently so adapted and/or so constructed, the Licensee shall inform the Authority as soon as reasonably practicable after becoming aware of the same, and the Authority may (having first consulted the Licensee), by notice in writing to the Licensee, add to the Annual Target for that Development Area and any subsequent Gas Year(s) a number of premises not

exceeding that previously excluded pursuant to this Condition 3.2.2
which appears to the Authority to be appropriate in the circumstances.