

8 May 2015

Correction to Gas Regulatory Letter No: 1 (GRL 1)

To: The Chief Executive (all gas conveyance licence holders)

Re: Utility Regulator Policy on Connections to High Pressure Gas Networks

Dear Sirs

This letter replaces the previous version of Gas Regulatory Letter No: 1 (GRL 1) dated 30th April. The only change is to the first line of the final paragraph on page three below which now refers to the 'high pressure network.'

1. General Requirements and Background

The Utility Regulator has recently had to consider a number of issues relating to the respective roles of the high and low pressure networks within the gas sector in Northern Ireland. These have arisen in particular in our work on the grant of the Gas to the West licences, and in engagements with several market participants.

In the light of this, we wish to adopt and state clearly a policy about our approach to gas connections made at low pressure.

2. Policy Position

Our Policy

Other than in exceptional cases, we expect that all final customers seeking a connection to the gas system should be connected to a low pressure network.

Reasons for this Policy

The principal objective of the Utility Regulator is to 'promote the development and maintenance of an efficient, economical and co-ordinated gas industry in Northern Ireland' in a way that is consistent with its objectives under Directive 2009/73/EC (Article 14(1) of the Energy (Northern Ireland) Order 2003).

This objective recognises that the gas industry in Northern Ireland is still in a state of development. Although in some areas it has achieved a measure of maturity, the Utility Regulator, together with the Northern Ireland Executive are both committed to continuing its expansion wherever it is economic to do so. This is reflected in the fact that the Executive has allocated public funds of up to £32m to support the Gas to the West network extensions, just as grant funding was previously made available for the development of the Scotland-Northern Ireland Pipeline, the Northwest Pipeline and the South-North Pipeline.

It is important to the economic case for any low pressure network that all customers who seek to be connected within the relevant area for the purposes of obtaining a supply of gas are connected to that network. It fundamentally harms that economic case if certain customers, in particular those who have a larger demand for gas, are able to connect directly to the high pressure network and bypass the use of low pressure pipelines.

In addition, the opportunities for customers to obtain a connection to a gas network will be maximised by the extension of low pressure networks to the fullest possible geographical extent. Where a major customer requires the extension of a low pressure network for the purposes of obtaining a supply of gas, that gives rise to an opportunity to obtain a supply for other customers living along the path of the extension, for whom an extension of the network would not otherwise have been economical.

The policy therefore serves the two important aims of ensuring the economic viability of low pressure networks and maximising their geographical reach and, in consequence, the number of customers in Northern Ireland who are able to obtain a supply of gas.

To the extent to which these aims are fulfilled, the development and maintenance of the gas industry in Northern Ireland will be promoted, in the interests of both current and future customers. The policy is therefore in accordance with the Utility Regulator's principal objective and also with some of its key duties such as ensuring a high level of protection for consumers and securing that licence holders are able to finance their obligations (respectively Articles 14(2)(a) and (b) of the Energy Order (Northern Ireland) 2003).

The Previous Position

Although this is the first time that we have adopted a clear statement of policy on these matters, this policy is entirely consistent with the approach that we have taken in the past, and may be said to have been implicit in many of our previous decisions.

Indeed the successful roll-out of the gas network in Northern Ireland to date has largely taken place on the basis that all customers should be connected to, and therefore contribute to the development of, the low pressure network.

The cost-benefit analysis for the Gas to the West project carried out by DETI in 2012, and on which government support for the project relied, was also undertaken on the basis that all customers would use and contribute to the low pressure network – 40,000 customers in all, including both industrial and domestic users. This was fundamental to the overall economics of the project and was accepted by the European Commission in its State Aid decision of 10 July 2014.

The sole exceptions to this general approach in Northern Ireland have been the large power stations at Coolkeeragh and Ballylumford. They are in a special position which cannot be compared with that of any other customers. Both have a technical requirement for connection at high pressure, and they are by far the largest users of gas in Northern Ireland, each having a demand which is at least twenty times larger than that of the largest industrial sites connected to the low pressure network.

By definition, therefore these are exceptional cases. In practice it would be unsustainable for any high pressure system to operate with a significant potential for low pressure connections and this is not the international norm.

Historically, many actions taken by both the Utility Regulator and DETI have been consistent with the principle that only in exceptional cases should final customers connect to a high pressure network. First, conveyance exclusivity has been granted to all low pressure network licensees. Second, DETI obtained a derogation from the direct line provisions of Directive 2003/54/EC, the effect of which was that, for the period and in the area covered by the derogation, Northern Ireland did not have to make provision for direct connections to high pressure networks. The rationale for the derogation was closely related to the reasons for the policy we are now adopting. Third, we have only approved exit points from the high pressure networks for the two power stations mentioned above and to facilitate low pressure networks (i.e. PNGL and firmus).

Future Exceptions

Our policy recognises the potential for exceptional cases to arise, such as those of the two power stations, where the direct connection of a final customer to a high pressure line may be necessary.

Typically we would expect this to be the case only in situations which are comparable to those of the power stations, in which there is a very large load and technical reason for gas to be taken at high pressure, but in some very exceptional cases there may be a reason why a connection may occur at low pressure. We will consider each case on its merits, having regard to all relevant circumstances.

3. Next steps

In light of the expansion of the gas network in the west of Northern Ireland, the Utility Regulator intends to take a number of steps to ensure that it can give explicit effect to the policy. In particular, we propose to modify the licences of high pressure licensees to ensure that they are not under a duty to, and do not, connect final customers to their networks other than in exceptional cases subject to our approval. We will also propose modifications to the high pressure network codes to ensure that our approval would be required for any new exit points.

In such cases, we would expect to give approval only on the basis of the policy set out here.

We will consider whether any further changes need to be made to other legal documents in order to ensure that this policy can best be given effect.

Prior to these changes being made, we would consider any provisions in existing legal documents that are contrary to this policy to be inconsistent with our principal objective and general duties, and would not expect to take any action to enforce or otherwise give effect to them.

Yours sincerely

Jenny Pyper
Chief Executive
For and on behalf of the Northern Ireland Authority for Utility Regulation