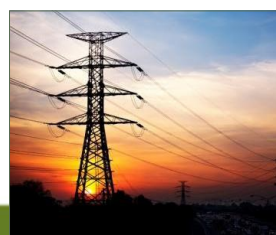


**Notice to Extend the Conveyance
Licence Area and Modification of the
Conveyance Licence of Phoenix
Natural Gas Limited – East Down**

16 October 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

This paper sets out the Utility Regulator's proposals to extend the licence area of Phoenix Natural Gas Limited to East Down. This extension comprises 13 new towns for development and requires capital expenditure in excess of £58m and will make gas available to around 27,000 properties over the total period.

Audience

This document is likely to be of interest to the licensee affected, other regulated companies in the energy industry, government and other statutory bodies and consumer groups with an interest in the energy industry.

Consumer impact

The effect of this extension is to ensure natural gas connections are available in areas that have, to date, not been developed. This allows access to a cleaner alternative fuel source for consumers, to aid a reduction in fuel poverty.

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1. Introduction

Purpose of this paper

- 1.1. On 7 October 2015, Phoenix Natural Gas Limited (PNGL) applied for our approval, under Article 8 of the Gas (NI) Order 1996, to grant an extension to its Conveyance Licence, to facilitate conveyance in East Down.
- 1.2. If granted, the extension and licence modification proposed in Appendix 1 to this document, would allow for 13 new towns to be connected to natural gas for the first time, namely; Annahilt, Ballygowan, Ballynahinch, Castlewellan, Crossgar, Downpatrick, Dromore, Drumaness, Dundrum, Hillsborough, Newcastle, Saintfield and The Spa.
- 1.3. The capital investment for the overall project is upwards of £58m and is estimated to make gas available to c25k domestic properties and c2k small industrial and commercial businesses.
- 1.4. After reviewing the application we propose to grant the extension and this consultation offers the opportunity for parties to make representations or objections in relation to the proposed extension.

Responding to this consultation

- 1.5. Responses to this consultation paper should be submitted by 5pm on Friday 13 November 2015. Responses should be sent to:

Jonny Millar

Utility Regulator

Queens House

14 Queens Street

Belfast BT1 6ED

jonny.millar@uregni.gov.uk

1.6. The Utility Regulator's preference would be for responses to be submitted by e-mail.

1.7. Individual respondents may ask for their responses (in whole or in part) not to be published, or that their identity should be withheld from public disclosure. Where either of these is the case, the Utility Regulator will also ask respondents to supply the redacted version of the response that can be published.

1.8. As a public body and non-ministerial government department, the Utility Regulator is required to comply with the Freedom of Information Act (FOIA). The effect of FOIA may be that certain recorded information contained in consultation responses is required to be put into the public domain. Hence it is now possible that all responses made to consultations will be discoverable under FOIA, even if respondents ask us to treat responses as confidential. It is therefore important that respondents take account of this and in particular, if asking the Utility Regulator to treat responses as confidential, respondents should specify why they consider the information in question should be treated as such.

1.9. This paper is available in alternative formats such as audio, Braille etc. If an alternative format is required, please contact the office of the Utility Regulator, which will be happy to assist.

2. UR Initial Consideration of Application

Introduction

2.1. We have reviewed the licence application received under Article 8 of the Gas Order (Northern Ireland) 1996¹ and under the Statutory Rules of Northern Ireland².

2.2. The information submitted fully follows the published schedules and principals as laid out in the Gas (Applications for Licences and Extensions) (Amendment No. 2) Regulations (Northern Ireland) 2013.

Licence Modifications

2.3. As part of the proposed extension we would also propose to modify the PNGL licenced area set out within its licence under schedule 1. The proposed modification is set out in Appendix 1 to this consultation.

2.4. We are also consulting on these linked licence modifications as part of this document.

2.5. The application proposes to provide gas to the 13 towns over a period from 2016 – 2018. The plan for development is as follows:

- **2016** – Annahilt, Ballygowan, Ballynahinch, Hillsborough and the Spa;
- **2017** – Crossgar, Downpatrick, Drumaness and Saintfield; and,

¹ <http://www.legislation.gov.uk/nisi/1996/275/article/8>

² Namely the Gas (Applications for Licences and Extensions) (Amendment No. 2) Regulations (Northern Ireland) 2013: <http://www.legislation.gov.uk/nisr/2013/281/made>

- **2018** – Castlewellan, Dromore, Dundrum and Newcastle.

Infill of the towns is to be commenced after these builds to facilitate connections.

2.6. These towns correspond to a number of wards now proposed to be included in the attached licence modifications. For the avoidance of doubt the wards are based on the wards as constituted before the changes brought about by the reform to local government, to ensure a consistent approach within the PNGL licence. The licence modifications also allow PNGL to build and operate pipelines for the purpose of bringing gas to the wards identified. The application does not request exclusivity in the wards outlined as part of the extended licence area.

2.7. It is important that there is some obligation on PNGL to deliver against this proposal should the extension be granted. We propose to consider this as part of our GD17 price control and consider that a development plan may be appropriate to formally set out, including in licence conditions. This would be subject to a separate consultation.

Impact on Tariffs and Treatment of Postalised Distribution Pipeline

2.8. The concept of a gas extension to East Down has been subject to a positive economic appraisal by DETI in 2012 and endorsement from the NI Executive in January 2013.

2.9. An important consideration of such extensions is the impact they would have on gas transmission tariffs. As part of the public consultation³ on the

³ Gas to the West – Licence Consultation – 18 December 2014:
http://www.uregni.gov.uk/uploads/publications/2014-12-18_G2W_Licence_Consultation_Paper.pdf

Gas to the West conveyance licences, UR set out the approach which would be taken in relation to both the Gas to the West project and East Down. For completeness we have repeated the main principles below.

2.10. The NI high pressure gas conveyance licences include conditions in relation to Postalised Distribution Pipelines (PDPs).

2.11. A significant amount of pipeline is required to bring gas to the towns and cities of NI and these main pipelines vary between higher and lower pressures – indeed the pressure of each pipeline on the route will not be clear until after licence grant. Within the area of each town, there will also be a network of smaller diameter low pressure pipelines.

2.12. As part of previous projects DETI has set out the NI policy that such main pipelines will be defined as Postalised Distribution Pipelines (PDPs) and run to the outskirts of the relevant towns. Please see previous consultation⁴ on this matter. The assets are thus included within the transmission postalisation tariffs which are paid by all consumers in NI. The network assets which distribute gas to consumers within the towns and cities are included within the relevant distribution company's asset base and subsequently into that company's distribution tariffs. This follows the approach which has been taken with all gas projects in NI.

2.13. The Authority has noted the DETI consultation⁵ in relation to the Gas to the West (G2W) and East Down projects. In particular the Authority notes that DETI included in its consultations the need to limit any increase

⁴ http://www.uregni.gov.uk/uploads/publications/Postalisation_consultation_paper-June_final.pdf

⁵ <http://www.detini.gov.uk/1011.pdf>

in the postalised tariff. DETI's final impact assessment⁶ highlighted that the impact on overall bills, including subvention, should result in a less than 8% increase in gas transmission tariffs, equating to less than 0.5% on final retail tariffs. The Authority will have regard to this position in arriving at a determination of an appropriate amount for Postalised Distribution Pipelines to be included within the HP licence.

2.14. The Authority has now had an opportunity to carry out an initial review of the impact of PDPs on transmission tariffs in light of these DETI principles. We have assumed, for the purposes of the analysis, that the costs for both G2W and East Down will be incorporated within the G2W high pressure conveyance licence and therefore think it is important to assess both projects together and their aggregated impact. While this may create a higher hurdle it provides a strong protection for customers from increasing costs.

2.15. We estimate that the total costs of East Down plus Gas to the West to be included within the transmission tariff will be c. £127m to be repaid over a 40 year period. While we expect that these figures will change somewhat as the projects are developed, we are confident that they are based on a significant amount of technical review and benchmarking to provide a robust estimate for the purposes of this exercise.

2.16. We have then taken the latest volume forecasts for the projects and used a rate of return based on the published⁷ G2W rate of 1.98% and calculated the impact over 40 years.

⁶ http://www.deti.gov.uk/deti_equality_impact_assessment_extension_of_the_gas_network_to_the_west_2.pdf?rev=0

⁷ Gas to the West Licence Applications – Final Decisions – 18 November 2014 – P126:
http://www.uregni.gov.uk/uploads/publications/2014-11-18_G2W_Determination_FINAL.pdf

- 2.17. To make the calculations we have compared the increase in costs for both projects against the latest five year forecast of the transmission tariff and the average retail tariff over the last five years.
- 2.18. This results in an average increase in the postalised transmission tariff of 1.3%. The impact on final retail tariffs will range from 0.10%-0.13% and will depend on the size of customer load.
- 2.19. In addition we have calculated a sensitivity analysis to reduce the forecast volumes by 15% and increase WACC by 0.50%. Naturally this increases the customer impact to 4.1% and 0.32%-0.42% respectively. It is noteworthy that the figures using downside scenarios are still within the parameters outlined by DETI.
- 2.20. It is important to emphasise that the figures above should not be interpreted as a transfer from customers in one area to those in another. As set out above, all gas distribution zones in NI have been treated in a similar manner and so customers in the G2W and East Down areas will be contributing to costs from other areas when they pay the postalised transmission tariff.
- 2.21. We have discussed these results in detail with DETI and we are both content that these are consistent with the principles and impacts identified and provide a strong basis for progressing with the East Down and Gas to the West projects.

Conclusion

- 2.22. If granted, this extension would allow further development of the Northern Ireland natural gas infrastructure to make gas available to 13 new and previously undeveloped towns.
- 2.23. We note that no other distribution network operator has put forward a proposal to develop the area of East Down.
- 2.24. This proposal would allow c25k domestic consumers and c2k small businesses access to natural gas and will involve a capital investment upwards of £58m. This will allow those households and businesses to enjoy the social, economic and environmental benefits that come with natural gas.
- 2.25. After reviewing the application and considering it against the published criteria we hereby give notice under Article 8(4) of the Gas (Northern Ireland) Order 1996, that we propose to grant the licence extension. This is for the previously outlined reasons and on the basis that such an extension will further our principle objective of promoting an efficient, economic and co-ordinated gas industry.
- 2.26. We will consider any representations and objections before making a final decision.

3. Next Steps

3.1. Responses to this consultation are due by 5pm on Friday 13 November 2015.

4. Appendix 1 – Schedule 1 to the PNGL Conveyance Licence

SCHEDULE 1

Licensed Area for the Conveyance of Gas

The Licensed Area

- 1.1 The Licensed Area comprises:
- (a) the districts shown for the purposes of identification only, on the map attached as Annex 1 to this Schedule 1 and more particularly described on the map approved by the Department for these purposes and deposited with the Authority or any copy of the approved map certified by the Authority as a true copy;
 - (b) the areas within the boundaries of the following Electoral Wards (as falling within the district of Larne):
 - (i) Carncastle;
 - (ii) Kilwaughter;
 - (iii) Ballycarry;
 - (iv) Glenarm; and
 - (v) Glynn;
 - (c) the area within the boundary of the Electoral Ward of Millisle (as falling within the district of Ards); and
 - (d) the following premises:

- (i) 26 Site 1 Boghill Road, Newtownabbey, Co. Antrim, BT36 4QS;
- (ii) Tarmac Northern Ltd, 40a Boghill Road, Newtownabbey, Co. Antrim, BT36 4QS;
- (iii) Ballyearl Sports Centre, Doagh Road, Newtownabbey, Co. Antrim;
- (iv) Ashers Baking Co, 581 Doagh Road, Newtownabbey, Co. Antrim, BT36 5RZ;
- (v) 583, Doagh Road, Newtownabbey, Co. Antrim BT36 5RZ;
- (vi) Miles Ash Ltd, 576 Doagh Road, Newtownabbey, Co. Antrim BT36 5BU;
- (vii) Newtownabbey Council Depot, 570 Doagh Road, BT36 5BU; and
- (viii) 50 Carnmoney Road North.

(e) The area within the boundaries of each of the electoral wards of Comber North, Comber South, Comber West, Comber East and Lisbane.

(f) the area within the boundaries of each of the electoral wards of Moneyreagh, Ballinderry, Ballygowan, Ballymacbrennan, Maze, Saintfield, Hillsborough, Derryboy, Kilmore, Dromara, Quilly, Dromore North, Ballymaglave, Ballynahinch East, Dromore South, Dunmore, Crossgar, Drumaness, Strangford, Quoile, Seaforde, Audleys Acre, Castlewellan, Cathedral, Ballymote, Ardglass, Killough, Dundrum, Tollymore, Murlough, Shimna and Donard.

(e)(g) The land in on or over which pipelines are situated for the purpose of

conveying gas to wards specified in paragraph 1.1(f).

1.2 The Licensed Area shall also comprise:

- (a) the land in on or over which pipe-lines are situated for the purpose of conveying gas to the premises listed in paragraph 1.1(d) above;
- (b) the premises at The Temple Quarry, 26 Ballycarngannon Road, Lisburn, BT27 6YA;
- (c) the premises at The McQuillan Quarry, 15 Sycamore Road, Budore, BT29 4JE;
- (d) the premises at The Cranmore Pet Crematorium, 45 Tullyrusk Road, Dundrod, Crumlin, BT29 4OH;
- (e) the land in on or over which The McQuillan Quarry Pipeline is situated;
- (f) the land in on or over which The Quarry Pipeline is situated;
- (g) the land in on or over which The Cranmore Pet Crematorium Pipeline is situated;
- (h) any premises which are, at any given location, situated within a 50 metre radius of either The Quarry Pipeline or The McQuillan Quarry Pipeline or The Cranmore Pet Crematorium Pipeline; and
- (i) the land in on or over which pipelines are situated for the purpose of conveying gas to premises specified in paragraph 1.2(h) above.

1.3 In paragraph 1.2:

“The Quarry Pipeline” means the distribution pipeline of the Licensee which pipeline follows the route of the A24 (as proceeding

South from the boundary of the area described in 1.1(a) above) and continuing South along the A24 to the junction of the Carr Road, continuing North-West along the Carr Road to the junction with the B178, continuing South-West along the B178 to the junction with the Ballycarnannon Road and continuing south along the Ballcarnannon Road to (and terminating at) the premises specified in paragraph 1.2(b) above.

“The McQuillan Quarry Pipeline” means the distribution pipeline of the Licensee which pipeline follows the route of the Upper Springfield Road, Divis Road, Tornaroy Road, Wheelers Road, Tornagrough Road, Tullyrusk Road and continuing along the Sycamore Road to (and terminating at) the premises specified in 1.2(c) above.

“The Cranmore Pet Crematorium Pipeline” means the distribution pipeline of the Licensee which pipeline follows the route from the junction of Budore Road and Tullyrusk Road, continuing along the Tullyrusk Road to (and terminating at) the premises specified in 1.2(d) above.

5. Appendix 2 – Map of proposed route and Wards

