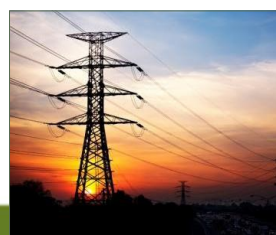


**Decision Paper on the Extension to the
Conveyance Licence Area and
Modification of the Conveyance
Licence of Phoenix Natural Gas Limited
– East Down**

10 December 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 decision on the extension to 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 provides access for an increasing number of consumers to the economic, social and environmental benefits of gas.

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1. Purpose of this Paper

- 1.1. This paper sets out the responses received in relation to the consultation on the proposed licence extension and modification of the conveyance licence of PNGL in respect of East Down.
- 1.2. This paper also deals with the Utility Regulator's decision on these issues.

2. Background

- 2.1. On 7 October 2015, Phoenix Natural Gas Limited (PNGL) applied to the Utility Regulator, under Article 8 of the Gas (NI) Order 1996, for an extension to its Conveyance Licence, to facilitate conveyance in East Down.
- 2.2. The reason for this proposed extension is to allow for the construction of the pipeline infrastructure necessary to facilitate the conveyance of gas to 13 new towns in the East Down area, namely; Annahilt, Ballygowan, Ballynahinch, Castlewellan, Crossgar, Downpatrick, Dromore, Drumaness, Dundrum, Hillsborough, Newcastle, Saintfield and The Spa.
- 2.3. 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.
- 2.4. On 16 October 2015¹, the Utility Regulator gave notice under Article 8(4) of the Gas (Northern Ireland) Order 1996, of its proposal to extend the licenced area and to modify the licence of PNGL, and facilitated representations or objections.
- 2.5. The proposed modification grants the addition of a number of wards to schedule 1 of the PNGL licence, on a non-exclusive basis and can be

¹ http://www.ureg.ni.gov.uk/uploads/publications/2015-10-15_Consultation_Note_to_Extend_the_Licence_Area_and_Modify_Licence_of_PNGL_-_East_Down.pdf

viewed as part of the Notice under Article 8(6) of the Gas (Northern Ireland) Order 1996 published on our [website](#).

3. Responses Received to the Consultation

3.1. The Utility Regulator received 2 responses in relation to the proposed licence extension and modification, both of which have been published on our website, from the following parties:

- a) [Firmus Energy \(Distribution\) Limited](#), and;
- b) [The Consumer Council Northern Ireland](#).

3.2. Both responses are broadly in support of the proposed extension and modification.

3.3. firmus energy noted that while there was no issue with this extension it would make sense to consider in future how to manage arrangements between gas distribution companies where sub division of wards might be appropriate. The Utility Regulator expects all gas distribution companies to cooperate on such matters and will consider the need for further work on the specific issue as the need arises.

3.4. The Consumer Council underlined the need for extensions and connections to be supported where financially viable.

3.5. The Utility Regulator agrees with this principle. It intends to progress further work in relation to East Down through the GD17 price control. This will include incentives for connections and cost allowances. As noted in our consultation it will also include consideration of an appropriate development plan to ensure there are obligations to develop the East Down area. This GD17 process will involve further separate consultation and engagement with stakeholders.

4. UR Decision on Extension to Licenced Area and Modifications

- 4.1. The Utility Regulator reviewed the PNGL licence application received under Article 8 of the Gas Order (Northern Ireland) 1996².
- 4.2. The application complied with the requirements of the Gas (Applications for Licences and Extensions) (Amendment No. 2) Regulations (Northern Ireland) 2013.
- 4.3. Careful consideration was given to the responses which were received to the consultation.
- 4.4. In particular we have taken into account the NI policy in relation to postalisised distribution pipelines, DETI's positive economic appraisal of the project and our analysis on the customer impact.
- 4.5. DETI's 2012 analysis on gas network extension found that the impact on overall bills of taking natural gas to towns in the West should result in an increase of less than 8% on postalisised transmission tariffs, equating to an increase of less than 0.5% on final retail bills. The updated 2015 analysis of Gas to the West and East Down shows a combined impact of 1.3% on the transmission tariff and 0.10-0.13% increase in final retail bills.
- 4.6. This is all set out in detail in our consultation paper and concluded that the customer impact is within the bounds set by DETI even when considered under stress tested scenarios.
- 4.7. As a result of the treatment of postalisised distribution pipelines there will be no increase in the PNGL conveyance tariffs as a result of the East Down extension.
- 4.8. In line with our statutory duties to ensure the economic, efficient and co-ordinated development of the gas industry within Northern Ireland, we are

² <http://www.legislation.gov.uk/nisi/1996/275/article/8>

satisfied that the proposed extension of the network to East Down and the associated wards adhere to these principles and will bring significant benefits to customers in the additional towns.

4.9. In accordance with the power conferred on it by Article 8(2) the Utility Regulator grants the extension to the PNGL licence to increase the area authorised by that licence and will implement the licence modifications as set out in the notice given in accordance with Article 8(6) as outlined in paragraph 2.5.