

**Notice under Article 8(4) of the Gas
(Northern Ireland) Order 1996 –
Proposal to extend the Gas
conveyance licence area of PNGL to
include Whitehead**

1 June 2018



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 contained within the licence granted to Phoenix Natural Gas Limited to include Whitehead. This extension comprises a previously undeveloped town for development and requires capital expenditure in excess of £3m. It will make gas available to around 2,250 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 that natural gas connections are available in an area that has not been developed to date. It will allow access to a cleaner alternative fuel source for consumers. It will seek to aid a reduction in fuel poverty.

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1. Introduction

Purpose of this paper

- 1.1. On 3 May 2018, 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 the town of Whitehead.
- 1.2. If granted, the extension and associated licence modification to Schedule 1 of the licence as proposed in Appendix 1 to this document, would allow the town of Whitehead to be connected to natural gas for the first time.
- 1.3. The capital investment for the overall project is upwards of £3m and is estimated to make gas available to approximately 2,000 domestic properties and approximately 50 small industrial and commercial businesses.
- 1.4. This paper sets out the scope of the proposed extension to the PNGL license (see appendix 1 and 2). Also our analysis of the application submitted by PNGL, in particular the assumptions made by the company.
- 1.5. 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

1.6. Responses to this consultation paper should be submitted by 5pm on Friday 29 June 2018. Responses should be sent to:

Jonny Millar

Utility Regulator

Queens House

14 Queens Street

Belfast BT1 6ED

jonny.millar@uregni.gov.uk

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

1.8. 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.

1.9. 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.

- 1.10. 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.

2.2. The information submitted follows the published schedules and principals as laid out in the Gas (Applications for Licences and Extensions) (Amendment No. 2) Regulations (Northern Ireland) 2013².

Licence Modifications

2.3. To facilitate the proposed extension we propose to modify the PNGL licenced area set out under Schedule 1 of the licence. The proposed modification is set out in Appendix 1 of this consultation.

2.4. The application proposes to provide bulk mains gas to Whitehead in 2018, with Infill of the towns to be commenced in 2019 through to 2021 to facilitate connections.

2.5. In order to bring the benefits of natural gas to Whitehead, there are two wards now proposed to be included in the attached licence modifications, namely Whitehead and Blackhead. See appendix 2 which sets out the map of the wards and the proposed route of the pipeline. For the avoidance of doubt the wards are based on the wards as constituted before the changes

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>

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.

Impact on Tariffs & Sensitivities

2.6. The concept of a gas extension to Whitehead has been discussed for a number of years, however, as part of the GD17 Price Control a fall in rate of return allowances (mainly due to a lower cost of borrowing in the market) has meant the feasibility of approval has positively changed.

2.7. An important consideration of such extensions is the impact they would have on current gas distribution tariffs in the relevant area. Previous extensions have been assessed on the basis that distribution tariffs will remain unchanged i.e. that the project will produce a breakeven status as a minimum requirement.

2.8. We have assessed the PNGL submission and the underlying assumptions employed by PNGL and can confirm that based on these assumptions the extension to Whitehead is projected to breakeven.

2.9. We have also stress tested a number of these key assumptions in order to assess the economic impact they could have on the feasibility of the project, the testing includes:

1. Weighted Average Cost of Capital (WACC) – reduced to the best

estimate of what this will outturn at after the cost of debt mechanism³ is accounted for. Currently we estimate that a reduction in WACC would have a **positive** impact on Net Present Value (NPV) of £106k;

2. Including connection incentive non additionality⁴ given the precedent of the inclusion for other recent network extensions. This will mean that an annual number of connections will be added to the current fixed values outlined in the GD17 Price Control, for allowance adjustment purposes. When this is considered for the Whitehead extension, the **positive** impact on NPV is approximately £86,000;
3. Reduced usages for domestic / small Industrial & Commercial (IC) customers – The assumptions used by PNGL in the Whitehead application in relation to domestic usage is approximately 8% higher than in the PNGL GD17 Price control, whereas the small IC usages are consistent with GD17. The slight increase in domestic usage reflects the fact that Whitehead includes larger houses than average. However, if the domestic usage was reduced to the GD17 average then this would have a **negative** impact on NPV of £139,000;
4. Domestic Owner Occupied (OO) penetration reduction by approximately 7% by year 10 due to a lack of demand to connect. It is assumed the propensity to connect in Whitehead would be higher than it was from 1996 to 2006 due to:
 - gas being available in the areas surrounding Whitehead for a number of years;
 - there being a very high likelihood that Whitehead residents will have experienced PNGL (or other gas Distribution network

³ Please refer to the GD17 Final Determination – Paras 10.9 to 10.12

⁴ Please refer to the GD17 Final Determination – Paras 6.355 to 6.359

operator) advertising for the benefits of natural gas; and,

- residents and MLAs being quite vocal in trying to secure gas availability for the town over a number of years.

If OO penetration was to outturn lower than anticipated, this would have a **negative** impact on NPV of approximately £92,000;

5. Any negative impact of OO penetration is offset by the very high likelihood that the NIHE connections outlined in the economic appraisal will be accelerated due to the current NIHE upgrade scheme and extension timetables lining up, this will have a **positive** impact on NPV of approximately £98,000; and,
6. Removal of Traffic Management Act (TMA) allowances post GD17 – no such legislation is currently in progress, but this is more unlikely than impossible. We currently estimate the effect of a removal of TMA post GD17 as a **positive** impact on NPV of £32,000;

2.10. Judgement based assessment of the most likely outcomes for each scenario does not call into question the feasibility of the project and the likelihood of all negative impacts taking place are seen as low based on our information at this stage, with the most likely changes in the outturn assumptions being of a positive nature.

Connections in Whitehead

2.11. It is important that PNGL deliver against this proposal should the extension be granted. We propose to set targets for Whitehead and include these targets within the GD17 Uncertainty Mechanism, given that all allowances will be awarded in line with those rates contained within the GD17 Final Determination⁵.

⁵ [Price Control for Northern Ireland's Gas Distribution Networks GD17 – Final Determination – 15th September 2016](#)

2.12. We note that the PNGL application includes 25 housing association properties as part of the owner occupied data. Housing Association connections will be treated as NIHE connections and not Owner Occupied, as clearly outlined in the GD17 Final Determination glossary table.

2.13. We queried a number of properties that appeared to be absent from the build plan submitted by PNGL.

2.14. PNGL have confirmed that this was a simple oversight in the submission where these were not included in the proposed build but were included in the connection numbers.

2.15. They have confirmed they will make gas available to every property where it is economic to do so.

Conclusion

2.16. If granted, this extension would allow further development of the Northern Ireland natural gas infrastructure to make gas available to the previously undeveloped town of Whitehead.

2.17. 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 further to the reasons outlined above.

2.18. This extension will further our principle objective of promoting an efficient, economic and co-ordinated gas industry. This proposal would

allow approximately 2,000 domestic consumers and approximately 50 small businesses access to natural gas and will involve a capital investment upwards of £3million. This will allow those households and businesses to enjoy the social, economic and environmental benefits that come with natural gas.

2.19. We note that no other distribution network operator has put forward a proposal to develop the town of Whitehead.

2.20. We will duly consider any representations and objections made before making a final decision.

3. Next Steps

3.1. Responses to this consultation are due by 5pm on Friday 29 June 2018.

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.
- (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).

- (h) The area within the boundaries of each of the electoral wards of Whitehead and Blackhead.

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 Ballycarngannon Road and continuing south along the Ballcarngannon 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.

- 1.4 In this Schedule any reference to an electoral ward is a reference to that ward as constituted under the Local Government Boundaries Order (Northern Ireland) 1992.

5. Appendix 2 – Maps of Wards and proposed route





