

# Gas Network Extension in Northern Ireland

Utility Regulator Workshop  
Tuesday 7 May 2013

# Disclaimer

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- The role of this workshop and associated presentations is to generate debate in order to ensure that future decisions are robust and cover all material issues. Nothing in this workshop or presentations should be construed as indicating a decision as to what process the Utility Regulator will follow or view it may take on any aspect connected with a network extension. The Utility Regulator has not formed a final view on how the process will proceed.

# Structure of the presentation

- Introduction
- Background
- High level principles
- Licence application process
- Assessment criteria
- Treatment of costs
- Transmission regulatory model
- Distribution regulatory model

DRAFT ONLY

# Introduction (1)

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- January 2013 Northern Ireland Executive Committee agreed up to £32.5m of subvention
- Six towns to be connected to natural gas network
  - Dungannon including Coalisland
  - Cookstown including Magherafelt
  - Enniskillen including Derrylin
  - Omagh; and
  - Strabane.
- NIAUR will grant necessary licence(s)
  - what follows assumes more than one applicant
- DETI is responsible for determining published criteria against which applications will be judged

# Introduction (2)

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- Current consultation builds on a previous discussion paper and stakeholder workshop (May-June 2012)
- Deals with issues to be decided in designing the competition phase of the award of licence process
- We are keen to encourage stakeholder engagement in the process
- Consultation responses to be with UR by 5.00 pm Wednesday 29 May

# Introduction (Questions)

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Q. 1 Is the respondent actively considering making an application for the necessary licence(s)?

# Background

# Background - Project History

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- August 2009 DETI assisted by UR commissioned Fingleton McAdam to report on the technical and economic feasibility of extending the natural gas network to the west
- Summer 2011 DETI conducted a public consultation on such an extension
- May –June 2012 UR published a discussion paper and hosted a stakeholder workshop on the conduct of a competitive licence application process and potential regulatory frameworks the output from which was published in August 2012
- Summer 2012 DETI developed an Outline Business Case as a means of seeking government subvention for extension to the six towns.
- January 2013 Northern Ireland Executive Committee agreed up to £32.5m of subvention
- April 2013 UR publishes proposals for consultation covering a competitive licence application process and regulatory models.



# Background - Subvention

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- Subvention is subject to State Aid approval by the European Commission
  - will not be known until end of 2013
- Subvention based on transmission system capital cost of £92.9m (2012 prices)
  - capped at £32.5m and
  - will be less if capital expenditure less
- Payment of the subvention will be strictly scrutinised by DETI and will only be made for certain outputs such as materials, it will also require the delivery of social outputs such as hiring of apprentices

# Background - Legislative Framework

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- The powers and duties of both the Authority and Department are set out in Article 14 of the Energy Order
- The Authority may under Articles 8 and 9 of the Gas Order grant an exclusive conveyance licence for a period of 20 years
- DETI is responsible for determining published criteria against which applications will be judged
- We are in discussions with DETI about what changes to the Published Criteria may be necessary to facilitate the competition
- The responses to this consultation process will assist DETI in developing these Published Criteria which will be consulted on separately
- The Authority will not commence the application process until DETI have completed the process to amend the Published Criteria

# Background (Questions)

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Q. 2 Do respondents require any additional information on possible Northern Ireland Executive Subvention in order to construct any potential licence application effectively?

# High Level Principles

# High Level Principles (1)

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- *Proposed that as far as is reasonable the costs revealed by applicants in the application process will be used by UR to set price control allowances for the first price control period*
  - Applicants have a strong incentive to accurately reveal costs
  - Robust basis for setting price control allowances
- *Proposed that the competitive application process will be based on a defined regulatory model*
  - Objective decision making
  - Applicants compete on level playing field
  - Reflect UR preferred licence design
- *Proposed that the defined regulatory model should include the network design and development plan set out in the FMA study*

# High Level Principles (2)

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- Proposed that the application process will be hosted jointly such that applicants may apply for
  - Apply for a single licence
  - Apply for each licence separately
  - Apply for both licenses jointly
  - Submit separate application on basis of being awarded, both licences and only one of the two licences
- This flexibility will facilitate maximum participation / competition

# High Level Principles (3)

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## Example One

- Applicant A receives 60 marks for D licence
- Applicant B receives 60 Marks for T licence
- Applicant C receives 75 marks for D and 50 marks for T licence
- Applicant C granted single conveyance licence as total marks ( $75+50=125$ ) is greater than A and B combined ( $60+60=120$ )

## Example Two

- Applicant A receives 60 marks for D licence
- Applicant B receives 60 Marks for T licence
- Applicant C receives 50 marks for D and 65 marks for T licence
- Applicant C granted neither licence as total marks ( $50+65=115$ ) is lower than A and B combined ( $60+60=120$ )

# High Level Principles (Questions)

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Q.3. What are respondents views on the options presented on linking applications and price control allowances?

Q.4. What are respondents views on having a structured competition in which applicants are asked to construct their applications on the basis of an established regulatory model and development plan?

Q.5. What are respondents views on whether the transmission and distribution competitions should be constructed to allow applicants to apply for each licence separately or jointly?



# Licence Application Process

# Licence Application Process (1)

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## *Stage 1 – The Applications*

- Proposed that applicants will have 3 months from the notice being published to prepare their application
- Proposed that information in support of an application will be collected by means of a Questionnaire and Data Workbook

## *Stage 2 – Evaluation of Applications*

- Evaluation will be on the basis of the DETI published Criteria
- Proposed that while there will not be a pre-qualification stage the application will only be judged if certain key criteria are passed

## *Stage 3 – Consultation and Licence Grant*

- The UR will conduct a 28 day public consultation on its evaluation of each application before the final Licence(s) are granted

# Licence Application Process (Questions)

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Q.6. We would welcome views on whether three months is sufficient to prepare a licence application.

Q.7. We would welcome views on our proposal to merge the pre-qualification and invitation to tender stages of the evaluation into a single evaluation stage.