

United Dairy Farmers Ltd. Response to the Utility Regulator, on the “Consultation Paper on Gas Extensions in N Ireland”

Introduction

United Dairy Farmers (UDF) welcomes the opportunity to comment on the Utility Regulator’s “Consultation Paper on Gas Network Extensions in Northern Ireland”. UDF spent almost £8 million last year on energy, so energy competitiveness is a key issue for our business.

United Dairy Farmers is the largest dairy business in Northern Ireland and one of the Province’s largest agri-food business; with interests ranging from animal feed to dairy products.

UDF are a Northern Ireland based dairy co-operative owned by 1,600 farmer members supplying almost 50% of Northern Ireland’s entire milk output. The business has an annual turnover of £450 million and employs around 1,000 employees mainly in rural communities. As a farmer owned co-operative all of the wealth generated by the business is passed directly back to our members and employees and therefore goes fully into the local economy.

United, which has six manufacturing sites across the Province, is estimated to be the fifth largest energy user in Northern Ireland. Two of our sites in the west of the Province, at Dunmanbridge, near Cookstown and at United Feeds in Dungannon, are solely dependent upon heavy fuel oil (HFO) as their primary heat energy source.

Over the last five years United Dairy Farmers has invested £50 million in its NI manufacturing facilities in order to become internationally competitive. However, our competitiveness is being impacted by high energy costs especially heavy fuel oil costs for our two sites in the west and high electricity prices across NI. In fact, bringing gas to the west is a “double-whammy” as not only would it reduce the prime energy cost by replacing HFO, but it would also allow us the opportunity to look at a CHP (Combined Heat and Power plant) and thus reduce our electricity cost.

UDF estimate that for us there is a £1.5 million *per annum* disparity in cost between HFO and gas. Without gas, we may have to consider closing our Cookstown powder operation as it has been incurring large losses due to its dependence on expensive heavy fuel oil. These losses would have been largely eliminated if gas had been available.

United Dairy Farmers are continuing to invest in the future of the dairy industry in Northern Ireland by expanding our processing capacity. Our latest proposed investment is a £30 million spend at Dunmanbridge, near Cookstown. Without “gas in the west”, to make our processing costs more competitive, this investment is in doubt; and we would have to look seriously at the option of relocating the plant from Dunman to the east of the Province. Currently our energy bill is higher in Dunman than our labour cost; this is unsustainable.

As well as the cost benefit detailed above, gas replacing oil would also reduce our carbon and smoke emissions. Also, as you will be aware, the lack of gas in the west is identified as a significant cause of fuel poverty in the region.

Specific issues raised by the Consultation Paper

A – Timeline

Whilst UDF understand the necessary sequential stages of bringing gas to the west outlined in the Consultation Paper, we wish to emphasise the urgency of meeting or improving on this timeline. It is essential that the “gas to the west” project is expedited; especially for large users, such as United Dairy Farmers, on whom the viability of the network will depend.

B – Scoring Criterion

UDF agree that it is important to ensure the network is provided at a competitive cost but we are concerned that the assessment criteria, scoring weighting in the Consultation Paper is skewed too much towards cost. We would suggest that it is also very important that the network operator has the capability and experience to subsequently develop the network. The long term economic viability of the “gas to the west” network will depend upon the network operator being effective at extending and ‘exploiting’ the network.

C – Exclusion of Phoenix

A specific issue raised by the Consultation Paper is the criterion for network providers’ recent experience. Our concern is that, as the criterion stands, this will exclude one of the largest local network providers, Phoenix. In our view Phoenix, as a major player in the Northern Ireland gas industry, should be allowed to bid to increase competition. Also, if Phoenix are allowed to bid it removes the threat of a legal challenge from them; which would inevitably lead to further delays to the Project’s timeline.

D – What is the alternative?

One final concern is that without gas there is no alternative to oil in the west of the Province. One option used on an industrial scale elsewhere is Biomass. However, this is not an option in Northern Ireland as it would involve the importation of Biomass from third world sources. This would have a significant negative impact; not only in human food and animal feed terms but also in terms of wider global ecology.

If we look at renewable energy; the capital cost to create the renewable capacity would dwarf many times over the cost of bringing gas to the west and that renewable energy will be more expensive than gas for the foreseeable future.

Concluding Remarks

Northern Ireland must have a balanced energy mix to provide security of supply, help cut carbon emissions and provide competitive prices for both consumers and businesses.

United Dairy Farmers is strongly supportive of extending the gas network in to the west and we cannot stress strongly enough the urgency of this Project. Investment decisions and jobs depend on the timeline being as short as possible; and thus we urge the Utility Regulator to do all in their power in order to hasten the process.

United Dairy Farmers would be happy to discuss with the Utility Regulator any points raised in this response.