EXPLANATORY MEMORANDUM TO

The Gas (Designation of Pipelines) Order (Northern Ireland) 2019

SR No. 2019 No. 1

1. Introduction

1.1. This Explanatory Memorandum has been prepared by the Department for the Economy ('the Department') to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.

1.2. The Statutory Rule is made under powers conferred on the Department by Article 59(1), (2) and (5) of the Energy (Northern Ireland) Order 2003 and is subject to the negative resolution procedure.

2. Purpose

2.1. The Statutory Rule will designate new high pressure gas pipelines between Portadown and Dungannon, and between Dungannon and Tullykenneye, in the West of Northern Ireland for the purposes of the common transmission tariff within gas bills.

3. Background

3.1. The Northern Ireland Executive has approved grant assistance up to £31.6m for a major project to extend the natural gas network to further towns in the West, including Dungannon, Coalisland, Cookstown, Magherafelt, Omagh, Enniskillen, Derrylin and Strabane. The project is being taken forward by private sector developers under exclusive gas conveyance licences awarded by the Utility Regulator following a competitive process.

3.2. In addition to the grant assistance, the economic viability of the Gas to the West project is supported by "postalising" the costs associated with constructing and operating the major new inter-town gas pipelines. This means that these costs will be added to a "postalised" pot and recovered from all NI gas consumers (both business and domestic) over a 40 year period through a common transmission tariff within gas bills. This follows established policy for the development of the natural gas industry in NI since 1996.

3.3. To give effect to this policy, all high pressure (> 7 bar) gas transmission pipelines in the West will be "designated" for the purposes of the common tariff under Article 59 of the Energy (Northern Ireland) Order 2003. The the Maydown to Strabane gas pipeline, constructed as part of the first phase of the Gas to the West project, was designated in October 2016. The remaining sections of new high pressure gas pipeline in the West, which extend from Portadown to Dungannon and onwards to Tullykenneye and are due to become operational in the second quarter of 2019, are now to be subject to a further Designation Order.

4. Consultation

4.1. On 3 July 2018, the Department published for comment an Article 59 public notice regarding plans to make and lay the Gas (Designation of Pipelines) Order (NI) 2019. A draft Regulatory Impact Assessment (RIA), equality screening form, and rural needs impact assessment were also published for comment. The Department received one response which was supportive of the proposed Designation Order.

4.2. The Consultation Paper, and associated documents can be accessed at: https://www.economy-ni.gov.uk/consultations/draft-gas-designation-pipelines-order-ni-2018.

5. Equality Impact

5.1. In accordance with the requirements of Section 75 of the Northern Ireland Act 1998, the Department carried out an equality screening exercise which concluded that, as the Gas to the West project has already been subject to a full Equality Impact Assessment (EQIA), including consideration of the impacts which postalisation policy might have on gas bills, a further EQIA on the planned Designation Order was not necessary.

5.2. Based on existing research and responses to earlier consultations on gas network extension policy in 2011 and the draft EQIA on Gas to the West in 2013, the Department considers that extending the gas network to towns in the West should benefit individuals by bringing greater fuel choice for both business and domestic consumers and by helping to shift dependence on oil or coal for household heating. The wider range of budgeting options available for natural gas, e.g. pre-payment gas meters, should also help to contribute to reducing fuel poverty.

6. Regulatory Impact

6.1. The Portadown to Dungannon and Dungannon to Tullykenneye gas pipelines are part of the overall Gas to the West project. The Department's RIA on the planned Designation Order therefore detailed the costs and impacts on businesses in Northern Ireland for connecting all proposed towns in the West to the gas network in order to present a comprehensive picture.

6.2. Taking grant assistance up to £31.6m into account, the RIA estimated that postalisation of the high pressure sections of new inter-town pipelines in the West will add between 0.32% and 0.38% to gas bills for businesses in Northern Ireland. This represents an increase in their annual gas bill of around £8 for a small company using 2,500 therms of gas per year, or around £8,000 for a larger energy user using 2m therms of gas per year (based on spring 2018 gas prices).

6.3. The RIA further estimated that, by 2022, some 1,600 businesses in the West could connect to gas, including up to 1,200 small businesses. It found that, even with oil and gas prices being the same, there are commercial benefits for businesses to convert to natural gas due to the greater efficiency of gas; no requirement for on-site bulk fuel storage; and potential for efficient gas fired Combined Heat and Power (CHP) systems to reduce electricity costs.

7. Financial Implications

7.1. The developers have estimated the total Gas to the West project costs in the region of £250 million. While the NI Executive has approved grant assitance up to £31.6 million towards the project, the remaining costs are bourne by the developers and recovered from gas consumers over an extended period within a strictly regulated process. This means that the costs associated with the high pressure gas pipelines which are the subject of this Designation Order, will be met by gas consumers (households and business) through an increase of between 0.30% and 0.38% in gas bills over a 40-year recovery period. In practical terms, it is estimated that this will add just under £2 per annum to the average household gas bill; around £95 per annum to gas bills for a medium-sized company; and around £8,000 per annum to the gas bill for a large energy user using 2 million therms of gas each year.

8. Section 24 of the Northern Ireland Act 1998

8.1. The Department has considered section 24 of the Northern Ireland Act 1998 and is satisfied that the planned Order does not contravene the Act.

9. EU Implications

9.1. There are no negative implications for the EU or its Member States.

10. Parity or Replicatory Measure

10.1. No.

11. Additional Information

11.1. Not applicable