

## **EXPLANATORY MEMORANDUM TO**

### **The Gas (Designation of Pipelines) Order (Northern Ireland) 2016**

#### **SR No. 364**

#### **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 the high pressure element of a new gas pipeline between Maydown and Strabane 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 £32.5m 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 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.
- 3.2. 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 first to be designated will be a section of the new gas pipeline from Maydown to Strabane which is due for completion in October 2016. The remaining high pressure gas transmission pipelines in the West will be subject to a further Designation Order upon completion in 2018.

#### **4. Consultation**

- 4.1. On 23 June 2016, the Department published an Article 59 public notice for comment regarding plans to make and lay the Gas (Designation of Pipelines) Order (NI) 2016. A draft Regulatory Impact Assessment (RIA) and equality screening form were also published for comment. The Department received two acknowledgements and one request for further information but no substantive responses.

- 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-2016>.

## **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. PAYG meters, should also help to contribute to reducing fuel poverty.

## **6. Regulatory Impact**

- 6.1. As the Maydown to Strabane pipeline is part of the wider Gas to the West project, the Department's RIA on the planned Designation Order detailed the costs and impacts for connecting all proposed towns in the West in order to present a comprehensive picture.
- 6.2. Taking the grant assistance into account, the RIA estimated that the common transmission tariff within overall gas bills for consumers in Northern Ireland may have to increase by a small percentage (some 0.5%) in order to recover the capital cost of the new inter-town gas pipelines and associated infrastructure in the West over a 40-year period, including the £10m Strabane pipeline. This translates to 0.04-0.05% on overall gas bills and represents an increase of £0.96 per annum on a typical SME bill of £2665, or £960 per annum for a large energy user with current gas usage of 2m therms of gas.
- 6.3. The RIA further estimated that some 1800 SMEs in the West could connect to gas. Even if gas is similarly priced to oil, there would be commercial benefits for businesses to convert to natural gas, for example, due to the greater efficiency of gas, no requirement for on-site bulk fuel storage, and the potential for efficient gas-fired Combined Heat and Power (CHP) systems which can reduce electricity costs.

## **7. Financial Implications**

- 7.1. The developers have estimated the cost of constructing the major new high pressure and intermediate pressure gas pipelines to connect towns in the West at around £114m, including £10m for the Maydown to Strabane pipeline. Final project costs will be subject to tendered contracts as the project progresses. In order to recover these costs, there will be, as detailed above, a small increase in gas bills for both business and domestic customers. It is estimated that the NI Executive-approved grant assistance

will reduce this increase to around 0.04-0.05% on overall gas bills which translates to £0.23 per annum on an average household gas bill.

**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