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Document

Submission from the

Western Development Commission

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Introduction

The Western Development Commission (WDC) welcomes the opportunity to make a submission to the Commission for Energy Regulation (CER) on the “Bord Gáis Networks Connections Policy Consultation Document”.

The WDC is a statutory body established by government to promote, foster and encourage economic and social development in the Western Region¹. Established in 1997, the Commission was put on a statutory basis in February 1999 and operates under the aegis of the Department of Community, Rural and Gaeltacht Affairs. One of the main functions of the WDC is regional policy development. As part of this, the WDC seeks to ensure that government policy reflects the needs of the region across such areas as infrastructure, natural resources, industrial and rural development. It also tracks the implementation of policies and recommends adjustments as appropriate.

In monitoring government policy and associated regulation, and ensuring that these reflect the needs of the Western Region, the WDC regards the provision of quality energy infrastructure as an important element of the infrastructure required to underpin the economic development of the region.

The WDC has been concerned about the effect of current gas distribution connection policy² since its introduction, highlighting that it does not allow for the connection of towns in the west to the natural gas network, which has recently been extended to the region. The WDC highlighted its concerns with the CER in 2004 and subsequently in 2005 provided some of the funding for Ballina Chamber of Commerce to undertake a study of the feasibility of a gas connection under that policy. The findings of this study³ (hereafter referred to as the Enercomm Report) clearly showed that existing policy does not allow for the connection of Ballina, and by implication, of other towns in the region. The WDC has raised this with the Minister for Communications, Marine and Natural Resources and the findings and recommendations for change were presented, with Ballina Chamber of Commerce, to the CER and the Joint Oireachtas Committee on Communications, Marine and Natural Resources.

In this submission we make general comments about the importance of natural gas provision in regional development, government policy for regional development in relation to energy and the necessity of ensuring that the CER takes this into account in any decision on a natural gas connection policy for new towns. We then make detailed comments on the BGÉ proposal, mainly as it relates to new towns. The WDC’s main concern is that natural gas should be available to towns in the Western Region. The WDC will not comment on the detail of the proposed policy for other types of connections.

¹ Counties Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare.

² CER/03/190 Commission Decision on Gas Distribution Connection Policy 7th August 2003.

³ Feasibility Report on Natural Gas Distribution Pipeline to Ballina; Report for Ballina Chamber of Commerce, Enercomm International Consultants, 2005

The Importance of Natural Gas for Regional Development

The WDC believes that an efficient, resilient energy infrastructure is crucial for regional development. Given the importance of energy infrastructure in underpinning economic development, the WDC is concerned that regions with low population densities and spatially dispersed industrial development, are given due consideration in regard to the development of energy infrastructure.

Manufacturing industry is particularly important in the Western Region, home to a number of major exporters which form a significant cluster of advanced manufacturing in the Region. All existing industry needs robust, reliable energy supply, and infrastructure capable of meeting any increase in their energy needs. Natural gas can also provide users with a choice of a cleaner, more efficient energy source.

In the last 35 years natural gas has become, like electricity, an energy infrastructure essential in Europe. Demand for gas in Ireland has grown rapidly since Kinsale gas was brought ashore in 1976. As the grid infrastructure has developed there has been major industrial uptake wherever gas is available. Furthermore, the extension of the natural gas network in Ireland to the Western Region can contribute to Ireland's obligations under Kyoto by replacing fuel oils in domestic and industrial applications.

The WDC believes that gas availability has become essential for successful regional economic development. The key benefits that it can bring to regions getting access to natural gas are reduced energy costs for businesses over the longer term and greater attractiveness for new industry locating in or around towns in the Western Region. Experiences in competition between locations show that for energy-intensive industries natural gas availability is an essential factor in location decisions⁴.

Indeed, BGE has noted that

Industrial and commercial users favour Natural Gas because it is clean, economical and efficient. Consequently, new industries tend to locate in Natural Gas areas⁵.

As the gas network expands and more consumers (both industrial and domestic) gain access to the network, the availability of gas supply will be taken for granted in many regions. In this context the lack of gas infrastructure in other regions may become a further disincentive to investment, reducing a region's competitiveness and thus increasing existing disparities. Furthermore, those industries in areas without natural gas face higher energy costs, lack choice of energy supply and will face higher costs arising from the use of more polluting energy sources.

Corrib Gas and the West

The discovery of natural gas in the Corrib Field was significant for the West of Ireland. It is a major natural resource which has the potential to bring significant regional development benefits. Current connection policy makes the extension of the natural gas grid in the Western Region very difficult as towns in the vicinity of the BGE Mayo-Galway pipeline, which will transmit gas from the Corrib field, are likely

⁴ Gas to the West: an evaluation of the Economic Case and Social and Environmental Benefits, Transition Management, 2003

⁵ Gas Pipeline to the West, 2000, Bord Gáis Éireann, 2000, page 4

to show negative NPVs in their investment appraisals, and so their connection would not be allowed under the current policy.

Our concerns about this policy are such that the WDC helped (with Leader) to fund a study undertaken by Enercomm International Energy Consultants for Ballina Chamber of Commerce⁶. This study establishes the current energy demands in and around Ballina and estimates the potential demand for natural gas under different scenarios. The study appraises the feasibility of Ballina acquiring a gas distribution supply using the current CER policy for the connection of new towns and also recommends the changes to that policy which would give a fairer appraisal of feasibility and lead to the connection of many towns in Mayo.

The WDC believes that this study undertaken for Ballina Chamber of Commerce is of significant importance in improving understanding of the effects of the CER policy on distribution connections, and it will be referred to throughout the submission.

Government Policy for Balanced Regional Development

The promotion of balanced regional development is government policy, with the commitments outlined in the National Development Plan 2000-2006 (NDP) and the National Spatial Strategy 2002-2020 (NSS). In both of these major policy documents the role of energy in regional development is considered. The key points in relation to energy are highlighted here.

In the NDP it is acknowledged that the investment in energy infrastructure and supply will not be directly controlled by the government, but it was highlighted that it should not constrain regional development:

The vast bulk of capital investment in the energy sector over the period to 2006 will take place outside of the provisions provided for in the Plan. The importance of the energy transmission network to the promotion of regional development is recognised. The Government will be concerned, in the context of a more competitive environment for energy supplies, to ensure that energy capacity *does not act as a constraint on regional development*.⁷

The WDC would like to emphasise that the CER should bear this in mind when reviewing policy for connections to the gas network and that regional development considerations be explicitly recognised in planning and development in the sector.

The NSS 2002-2020 is the key government policy on regional development. As is highlighted throughout the NSS, the development of regional infrastructure is essential to achieve balanced regional development. A number of the relevant points are drawn attention to here.

The NSS emphasises that:

Reliable and effective energy systems, such as gas and electricity to power industry and services, are key prerequisites for effective regional development.⁸

It goes on to suggest that:

⁶ Feasibility Report on Natural Gas Distribution Pipeline to Ballina; Report for Ballina Chamber of Commerce, Enercomm International Consultants, 2005.

⁷ NDP, 2000, p67 (italics added)

⁸ National Spatial Strategy 2002-2020, Department of the Environment and Local Government, 2002, p64

Prime considerations in terms of spatial policies relating to energy include:

- Developing energy infrastructure on an all-island basis to the practical and mutual benefit of both the Republic and Northern Ireland
- Strengthening energy networks in the West, North West, Border and North Eastern Areas in particular
- Enhancing both robustness and choice of energy supplies across the regions, through improvements to the national grids for electricity and gas⁹

Clearly the provision of energy infrastructure is an essential part of government policy for balanced regional development. It is therefore important that the CER has a mechanism to take this into account in relation to connections, investment in infrastructure and the development of the gas grid.

Comments on the proposed Connection Policy

The focus of WDC concern is with connection of new towns. We have, however, a number of comments to make on the general aspects of the proposed policy.

General points in relation to the proposal

The WDC believes that the connection policy must be founded on the principle that encouragement of new connections will reduce the costs of the network to all customers in the long run. The WDC agrees that Irish gas network utilisation remains low by international standards and that the connection of economic loads in the future is in the interests of all customers.

Connection policy needs to encourage growth in customer numbers in all parts of the network and not just in the densely populated areas, to make more efficient use of under utilised gas assets. This is particularly pertinent in relation to the Mayo Galway transmission pipeline which is currently under construction by BGÉ.

The WDC agrees that any new connection policy should be clear and transparent allowing customers or towns seeking connection to easily establish whether such a connection is likely to be allowable. The WDC also agrees with the objective of encouraging the connection of new customer load where it is efficient, so that in the medium and long term there will be increased throughput and reduced unit tariffs for all gas customers.

The WDC also agrees that connection charges should reflect the differential life of customers and that certain types of Industrial and Commercial (I&C) customers have a longer lifetime than a typical I&C customer and therefore should be evaluation over a longer time horizon. As was noted in the Enercomm Report, the current connection policy takes account of the risk that I&C customers will not maintain the same long term connections as residential sectors. However applying this same policy to the whole I&C sectors of a town fails to reflect the entirely different connection risk of individual premises.

In this context the WDC welcomes the new category of Institutional I&C customer and its definition as those customers who are not domestic but which, as a result of

⁹ National Spatial Strategy 2002-2020, Department of the Environment and Local Government, 2002, p64

their load characteristics, are likely to remain connected to the network for a longer period of time than a typical commercial enterprise.

Points relating specifically to the connection of new towns.

The WDC, in general, welcomes the proposed changes to the connection policy for new towns. The WDC believes that the conditions proposed by Bord Gáis are useful and that they will allow for the connection of towns in the west to the natural gas grid. The WDC believes that the proposed policy change is fairer than the current policy. Many of the towns which have access to natural gas at present were connected when the criteria for assessing their connection was not so strict. Towns in regions which did not have the opportunity to connect to gas infrastructure previously, now face stricter rules and higher hurdles in relation to investment appraisal of their connection. This is not equitable.

As was noted in the Enercomm Report:

It would appear that employing the same appraisal rules for individual connections and connecting towns to the gas network is gravely inappropriate, and requires to be addressed by the CER, as it may impact on the viability of gas extensions to a significant number of towns in future years. There is therefore a need to fundamentally review the appraisal methodology for connection of new towns to the gas network.¹⁰

Inclusion of transmission and distribution revenues and costs in economic test

The WDC notes the proposal to include both transmission and distribution revenues in the economic appraisals of connections for new towns. We feel that the inclusion of transmission revenues more fully reflects the true revenues associated with the connection of towns to the gas network, where they are in reasonable proximity to the transmission network. We note that the capital costs of transmission (in particular the AGI¹¹ which is the main cost for those towns which only require a distribution connection) will now also be included. However, we believe that over the discount period of the appraisal the capital costs associated with such a connection will be balanced by the inclusion of the transmission revenues. **Overall therefore the inclusion of both transmission and distribution revenues should be beneficial in terms of a fairer economic test for towns which would not require the construction of a transmission pipeline in order to connect.**

However, in areas without current access to the transmission network, and which would require the construction of a transmission pipeline, in order to connect, the inclusion of transmission costs are likely to be prohibitive. The WDC believes that natural gas connections are important for regional development. There is no transmission network in the North West and so the gateway towns of Sligo and Letterkenny do not have access to natural gas. If transmission pipelines were constructed to towns such as these (the government committed in principle in 2001 to extend the natural gas network to Sligo and Letterkenny¹²) they would have to be the subject of significant government subvention. If that were the case, and the

¹⁰ Feasibility Report on Natural Gas Distribution Pipeline to Ballina; Report for Ballina Chamber of Commerce, Enercomm International Consultants, 2005, p43

¹¹ Above Ground Installation

¹² In 2005 a decision was made not to construct a transmission pipeline to Letterkenny.

transmission elements of the project were the subject of grant aid or other funding mechanisms from the state, EU, or other body, in order to address a particular objective (such as regional development), then it would not be appropriate to include the full transmission costs in assessing the distribution connection of towns to that transmission pipeline. Hence the WDC believes that in situations such as these a different policy would be needed to assess the connection.

Economic evaluation over 25 year period for new towns

The WDC particularly welcomes the extension of the appraisal time period in the proposal:

To reflect the relatively lower risk of the diversified load base represented by a new town and the broader opportunities for growth of load, the present value appraisal for both domestic and I&C customers will be carried out over a 25 year period¹³.

As was noted in the Enercomm Report the current connection policy reflects the risk that I&C customers do not retain the same long term connections as residential customers. However the report highlighted:

- The entirely different connection risk of individual premises and that of a town with new gas supply;
- The wider choice of options in developing energy procurement strategies that businesses enjoy where gas is available;
- A town's scope for economic growth and development where there is access to competitively priced gas;
- The long term asset life (40 to 60 years) of totally new gas infrastructure employed in bringing gas to a town.

The WDC therefore welcome the change in approach in the proposed new gas connection policy as it applies to the connection of towns. **The WDC believes that 25 years appropriately reflects the risk of connecting a new town, and recognises the more stable nature of the connection of a town compared to the risks which might apply to an individual I&C connection.**

Option to appraise of town as a regional group

The WDC also welcomes the option that “it would be possible to appraise a new town either on its own or as part of a regional group of towns”¹⁴

This proposal would allow a group of towns to be appraised as a single project and so allow some towns, which would not have an economically viable connection on their own, to be viable for a connection as a part of a regional group. This is of particular benefit to the towns which can share operating services and hence operating costs. In the Enercomm Report it was noted that “If Ballina is to acquire a gas pipeline,

¹³ Connections Policy Consultation Document, Bord gais Networks p20

¹⁴ Connections Policy Consultation Document, p21

adjacent towns will also have to get gas pipelines so that Ballina can share its operating costs with them”¹⁵.

The study found that sharing the operating costs with another town has a significant impact on the NPV. If the operating cost (estimated in the study at €270,000 per annum) had to be borne fully by Ballina then the NPV would worsen (by €1.4m) compared to the Basecase scenario which allowed the costs to be shared with one adjacent town. The study also found that if Ballina could share these costs with a third town a further improvement in the NPV (some €371,000) would result.

Thus the benefits of sharing operating costs among adjacent towns is clear, and will apply to the appraisal of all other towns which are near enough to share operating costs.

Similarly sharing construction costs where towns are on the same connection spine will have a favourable impact on the NPV, which is particularly important for smaller towns. **Thus the WDC welcomes this proposal to appraise a group of towns as a single project.**

The WDC accepts the point made in the consultation document that the connection of new towns can be associated with a short term increase in tariffs because of the upfront investment requires and the time taken for load to build up, but also agrees that as the load grows in newly connected towns it will push general tariffs down in the longer term, benefiting all network users.

The WDC believes that the proposed policy change will lead to an increase in the number of towns which will meet the economic criteria for connection, in particular towns which are close to the network, which have large loads, or where a supplemental contribution is available.

Treatment of costs of spare pipeline capacity

The WDC also welcomes the proposal that it will, in certain cases, be appropriate to design extensions the pipeline network in anticipation of future load and so to design pipelines with capacity greater than that strictly required by the current connection. The WDC agrees that this will be more efficient and economic in many cases. The WDC believes that the costs used in any economic appraisal of a network connections should however reflect the costs which would have been incurred had the pipeline and associated infrastructure been sized to deal the specified requirements of the load connecting immediately.

Conclusion

This submission from the WDC has briefly noted the role and importance of gas in regional development and included specific comments in relation to the consultation paper on the connection of new towns.

The WDC is happy to provide further information or examples in relation to this submission, should they be required.

¹⁵ Feasibility Report on Natural Gas Distribution Pipeline to Ballina; Report for Ballina Chamber of Commerce, Enercomm International Consultants, 2005, p43

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If there are any further general queries in relation to this submission, please contact

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