

<b>Title:</b>  The Gas (Designation of Pipe-lines) Order (Northern Ireland) 2022	<b>Regulatory Impact Assessment (RIA)</b>
	<b>Date:</b> 9/9/2022
	<b>Type of measure:</b> Secondary Legislation
<b>Lead department or agency:</b>  Department for the Economy ('DfE')	<b>Stage:</b> Final
	<b>Source of intervention:</b> Domestic NI
<b>Other departments or agencies:</b>  Northern Ireland Authority for Utility Regulation ('the Utility Regulator')	<b>Contact details:</b> Irene McAllister
	<a href="mailto:Irene.mcallister@economy-ni.gov.uk">Irene.mcallister@economy-ni.gov.uk</a>
	Tel: 07388 717682

### Summary Intervention and Options

#### What is the problem under consideration? Why is government intervention necessary?

Kilroot power station, Carrickfergus ('EP Kilroot') is a primarily coal-fired power station, with oil as a secondary fuel, which plans to convert to natural gas. As part of the conversion project, a new 3km section of gas transmission pipe-line will be constructed to connect EP Kilroot to the existing Northern Ireland (NI) gas network at Marshallstown which is owned by Belfast Gas Transmission Ltd ('BGTL'). To support the economic viability of this project, and in line with established policy for the development of the natural gas industry in NI, DfE proposes to designate the new pipe-line for the purposes of the common tariff under Article 59 of the Energy (NI) Order 2003. This will allow certain costs associated with the new pipe-line to be added to a "postalised" pot and recovered from all NI gas consumers (business and domestic) through a regulated common transmission tariff within gas bills.

#### What are the policy objectives and the intended effects?

EP Kilroot, together with EP Ballylumford, can supply over 60% of NI's electricity demand. By designating the new gas pipe-line at EP Kilroot for the purposes of the common tariff, the Designation Order will facilitate the power station's conversion from coal to natural gas, a less polluting fossil fuel, in turn contributing towards lower carbon power generation in NI. This is in line with the new NI Energy Strategy, 'Path to Net Zero Energy', which was published in December 2021 and recognises natural gas as a transition fuel in the pathway to achieving net zero carbon emissions by 2050.

#### What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

A 'Do Nothing' option was considered and rejected. Failing to designate the new section of gas transmission pipe-line, and therefore not including relevant costs within the common tariff, could result in the project being deemed uneconomic. It is the Department's preferred option to implement the proposed 2022 Designation Order, which will facilitate EP Kilroot's conversion from coal to natural gas and support delivery of the new NI energy strategy.

<b>Will the policy be reviewed?</b> There are no plans at present to review postalisation policy.	<b>If applicable, set review date:</b> N/A
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<b>Cost of Preferred (or more likely) Option</b>		
<b>Total outlay cost for business</b> £m	<b>Total net cost to business per year</b> £m	<b>Annual cost for implementation by Regulator</b> £m
The capital cost of constructing the new gas pipe-line and associated infrastructure, currently estimated at up to £15m, will be met by EP Kilroot. However, the ongoing maintenance costs associated with the pipe-line will be “postalised” and recovered through the regulated common transmission tariff within gas bills. It is not expected that this will lead to an increase in the common tariff and it could even have a potential price benefit for gas consumers (see further information below).		Contained within existing administrative budgets.

<b>Does Implementation go beyond minimum EU requirements?</b>	<b>YES</b> <input type="checkbox"/>	<b>NO</b> <input checked="" type="checkbox"/> <b>N/A</b>		
<b>Is this measure likely to impact on trade and investment?</b>	<b>YES</b> <input type="checkbox"/>	<b>NO</b> <input checked="" type="checkbox"/>		
<b>Are any of these organisations in scope?</b>	<b>Micro</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<b>Small</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<b>Medium</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<b>Large</b> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

**The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.**

Approved by: Gordon Lyons [signed]

Date: 27 September 2022

**Description:** The Gas (Designation of Pipe-lines) Order (Northern Ireland) 2022

**ECONOMIC ASSESSMENT (Option 2)**

Costs (£m)	Total Transitional (Policy)		Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
	(constant price)	Years		
<b>Low</b>	<b>Optional</b>		<b>Optional</b>	<b>Optional</b>
<b>High</b>	<b>Optional</b>		<b>Optional</b>	<b>Optional</b>
<b>Best Estimate</b>			<b>£120k</b>	

**Description and scale of key monetised costs by ‘main affected groups’**

The capital cost of constructing the new pipe-line and associated infrastructure is estimated at up to £15 million. EP Kilroot are to cover this cost as part of their power generation business and it will not be added to the regulated common transmission tariff in gas bills<sup>1</sup>.

BGTL will incur the future costs involved in maintaining the pipe-line, with costs approved by the Utility Regulator as part of the regulatory process administered for the natural gas industry. These costs will be recovered through the common tariff which currently represents around 5% of a domestic customer’s gas bill.

The annual maintenance cost for the Kilroot pipe-line and associated infrastructure is estimated at approximately £120k per annum. This equates to approximately 2% of the maintenance element within the common tariff. It is not, however, expected that the Kilroot pipe-line will result in an increase in gas prices for consumers as the small additional cost will be offset by the additional demand from Kilroot power station. As the common tariff is calculated by the Utility Regulator on the basis of required revenue divided by forecast gas capacity bookings, the additional gas capacity required to meet EP Kilroot’s needs following its conversion to natural gas could even have a potential price benefit for gas consumers. However, there is insufficient clarity on forecasts at this stage to be certain.

**Other key non-monetised costs by ‘main affected groups’**

None identified.

Benefits (£m)	Total Transitional (Policy)		Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
	(constant price)	Years		
<b>Low</b>	<b>Optional</b>		<b>Optional</b>	<b>Optional</b>
<b>High</b>	<b>Optional</b>		<b>Optional</b>	<b>Optional</b>
<b>Best Estimate</b>				

<sup>1</sup> EP Kilroot will recover the £15m capital cost of the new gas pipe-line through NI consumers’ electricity bills but this is not expected to have a significant impact.

### **Description and scale of key monetised benefits by ‘main affected groups’**

By “postalising” the maintenance and operating costs associated with the new gas pipe-line, the Designation Order will support the economic viability of the project, facilitating the conversion of EP Kilroot from a primarily coal-fired power station to natural gas.

In facilitating the conversion project, the Designation Order could also have a potential price benefit for gas consumers although there is insufficient clarity on forecasts at this stage to be certain.

### **Other key non-monetised benefits by ‘main affected groups’**

The Designation Order will facilitate the conversion of EP Kilroot from a primarily coal-fired power station to natural gas, a less polluting fossil fuel. Natural gas emits some 50 to 60 percent less carbon dioxide (CO<sub>2</sub>) when combusted in a new and efficient natural gas fired power plant compared with emissions from a typical coal plant.

Without conversion, EP Kilroot was facing closure by 2024 as its coal-burning technology would not meet environmental standards. Therefore, as well as contributing to lower carbon power generation in NI, the project will provide additional security of electricity supply.

### **Key Assumptions, Sensitivities, Risks**

EP Kilroot bids into the all island Single Electricity Market (SEM) to win contracts for power generation and secure the ongoing viability of the power plant.

The Department notes that EP Kilroot has secured long-terms contracts through recent SEM capacity auctions. Their first capacity contract is due to run from October 2023 for at least the next 10 years. This helps to mitigate any financial risk associated with EP Kilroot’s conversion to natural gas and its investment in new gas-fired plant and infrastructure.

### **BUSINESS ASSESSMENT (Option 2)**

<b>Direct Impact on business (Equivalent Annual) £m</b>				
<b>Costs:</b>	<b>Benefits:</b>	<b>Net:</b>		

It is not anticipated that designation of the new gas pipe-line at EP Kilroot will increase the regulated common transmission tariff in gas bills. The project could even have a potential price benefit for gas consumers as a result of the increased gas volumes to be used by the new gas-fired power plant.

### **Cross Border Issues (Option 2)**

#### **How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland)**

Postalisation of the costs associated with major gas transmission pipe-lines is permitted under the Gas Tariff Code developed in line with the EU Gas Regulation (EC 715/2009) which, post EU Exit, is part of a range of EU provisions for the respective energy sectors retained within UK law.

## **EVIDENCE BASE**

### **Background:**

Natural gas was first introduced to Northern Ireland via the Scotland to Northern Ireland gas pipe-line in 1996. Two of NI's existing power stations, EP Ballylumford in Larne and Coolkeeragh in the North West are gas-fired but, at present, EP Kilroot is primarily coal fired, with oil as a secondary fuel.

### **Problem under consideration:**

EP Kilroot is a primarily coal fired power station which has plans to convert to natural gas and phase out its use of coal. Its conversion to natural gas will contribute towards lower carbon power generation and provide additional security of electricity supply in Northern Ireland. Without conversion, EP Kilroot was facing closure by 2024 as its coal-burning technology would not meet environmental standards.

As part of the project to convert EP Kilroot to natural gas, a section of high pressure (> 7 bar gauge) gas transmission pipe-line will be constructed to run underground for some 3 kilometres from an offtake connection to the existing Belfast Gas Transmission Pipe-line ('**BGTP**') at Marshallstown to the power station. Two Above Ground Installations (AGIs) at either end of the new pipe-line will also be constructed. A planning application for the project has been approved by Mid and East Antrim Council.

EP Kilroot are covering the capital costs associated with the new gas infrastructure within their electricity generation business, currently estimated at up to £15m, but arrangements are to be made for recovery of BGTL's ongoing operational and maintenance costs.

### **Rationale for intervention:**

To facilitate the new gas pipe-line and ensure its economic viability, the Department proposes to designate the pipe-line for purposes of the common tariff under Article 59 of the Energy (NI) Order 2003. This means that costs associated with the pipe-line may be added to a "postalised" pot and recovered from all gas consumers (businesses and households) in NI through a regulated common transmission tariff in their gas bills. This is established policy for the development and maintenance of an economic and efficient natural gas industry in Northern Ireland. It is proposed that the designation period for the new gas pipe-line at EP Kilroot should run from Mid October 2022 to 31 December 2051 (to coincide with the end of the designation period for the BGTP to which the new pipe-line will connect).

### **Policy objective:**

By designating the new gas pipe-line at EP Kilroot for the purposes of the common tariff, the Designation Order will facilitate the conversion of EP Kilroot from a primarily coal-fired power station to natural gas, a less polluting fossil fuel, in turn contributing towards lower carbon power generation in NI. This is in line with the new NI Energy Strategy, 'Path to Net Zero Energy', which was published in December 2021 and recognises natural gas as a transition fuel in the pathway to achieving net zero carbon emissions by 2050. The Strategy also recognises that large combustion plants such as power stations, are necessary to support increasing levels of renewable generation, which is mostly from on-shore wind at present, and by its very nature is a variable resource.

Designation of the Kilroot pipe-line is also in line with:

- (i) the Department's and the Utility Regulator's principal objective for gas under Article 14 of the Energy (NI) Order 2003, i.e. "to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland"; and
- (ii) The Department's and the Utility Regulator's general duties for electricity under Article 12 of the Energy (NI) Order 2003 which include the need to secure that all reasonable demands for electricity are met.

### **Description of options considered:**

- **Option 1 – do nothing**

*Do not designate the new 3km gas transmission pipe-line at Kilroot for the purposes of the common tariff under Article 59 of the Energy (NI) Order 2003. This would mean that certain costs associated with the pipe-line could not be recovered over an agreed time period from gas consumers through the mechanism of a regulated common transmission tariff in gas bills. This could make the project to convert EP Kilroot from coal to gas economically unviable.*

This option is not carried forward.

- **Option 2 – do minimum**

*Designate the new 3km gas transmission pipe-line at Kilroot for the purposes of the common tariff under Article 59 of the Energy (NI) Order 2003. This would permit a regulated common transmission tariff to be applied in accordance with the established principles of postalisation and ensure that the project to convert EP Kilroot from coal to gas is economically viable. This action follows the precedent set for all gas transmission pipe-lines already constructed in NI, including the existing BGTP to which the new pipe-line will connect. The BGTP is designated by the [Gas \(Designation of Pipe-lines\) Order \(NI\) 2007](#).*

This is the chosen option.

### **Monetised and non-monetised costs and benefits of each option:**

#### **Option 1**

##### **Costs and benefits**

The 'do nothing' option could render the project to convert EP Kilroot from a primarily coal-fired power station to natural gas economically unviable.

Failure to facilitate EP Kilroot's conversion from coal to natural gas, which is a less polluting fuel, would run counter to the overall policy direction established in the new NI Energy Strategy- 'Path to Net Zero Energy'.

Without conversion, EP Kilroot would be facing closure by 2024 as its coal-burning technology would not meet environmental standards.

## **Option 2**

### ***Monetary costs and benefits***

The capital costs associated with constructing the new gas pipe-line and associated infrastructure are estimated at circa £15 million. EP Kilroot will cover the capital cost of the project as part of its electricity generation business, so this will not be added to the common tariff in gas bills.

BGTL will incur the future costs involved in maintaining the pipe-line (estimated at £120k per annum) and these will be recovered through the common tariff. Such costs are agreed by the Utility Regulator as part of the regulated process for the natural gas industry. By way of example, the regulated common transmission tariff currently represents around 5% of a domestic customer's gas bill.

It is not expected that the Kilroot pipe-line will increase the common tariff for gas consumers. As the common tariff is calculated by the Utility Regulator on the basis of required revenue divided by forecast gas capacity bookings, the additional gas capacity required to meet EP Kilroot's needs following its conversion to natural gas could have a potential price benefit for gas consumers. However, there is insufficient clarity on forecasts at this stage to be certain.

The administrative costs associated with implementing the common tariff in respect of the new Kilroot pipe-line are contained within the Utility Regulator's existing budget.

### ***Non-monetary costs and benefits***

By ensuring the economic viability of the new pipe-line, the Designation Order will facilitate the conversion of EP Kilroot from coal to natural gas and allow for more lower carbon power generation in Northern Ireland.

Without conversion, EP Kilroot would be facing closure by 2024 as its coal-burning technology would not meet environmental standards. Therefore, by enabling EP Kilroot to continue generating electricity, the new gas pipe-line will also provide additional security of electricity supply for Northern Ireland which will benefit the wider population.

### **Rationale and evidence:**

Natural gas emits some 50 to 60 percent less carbon dioxide (CO<sub>2</sub>) when combusted in a new, efficient natural gas-fired power plant compared with emissions from a typical coal fired plant.

Compared to its existing coal-fired plant, the Proposed Development and Overall Project for Kilroot's conversion to natural gas shows a reduction of 400 tonnes of CO<sub>2</sub>e per GWh of electricity generated.

The environmental benefits of EP Kilroot converting to gas will impact generally on the local population, particularly those living in close proximity to the power station.

### **Risks and assumptions:**

EP Kilroot bids into the all island Single Electricity Market (SEM) to win contracts for power generation and thereby secure the ongoing viability of the power plant.

The Department notes that EP Kilroot has secured long-terms contracts through recent SEM capacity auctions. Their first capacity contract is due to run from October 2023 for at least the

next 10 years. This will help to mitigate any financial risk associated with EP Kilroot's conversion to natural gas and its investment in new gas-fired plant and the gas pipe-line.

### **Direct costs and benefits to business:**

It is not expected that the Kilroot pipe-line will increase the common tariff in gas bills for gas consumers, including businesses. As the common tariff is calculated by the Utility Regulator on the basis of required revenue divided by forecast gas capacity bookings, the additional gas capacity required to meet EP Kilroot's needs following its conversion to natural gas could have a potential price benefit. However, there is insufficient clarity on forecasts at this stage to be certain.

### **Wider impacts:**

The conversion of EP Kilroot to natural gas will provide additional security of electricity supply for NI and allow for additional lower carbon power generation in NI compared to coal-fired generation.

### **Conclusion:**

The Department concludes that the proposed legal designation of the new 3km gas transmission pipe-line at EP Kilroot for the purposes of the common tariff follows established principles and practice for the development of the natural gas industry in NI. This ensures that the costs associated with major gas pipe-lines may be recovered from gas consumers across an extended period through the regulated common transmission tariff in gas bills. Designation of the new gas pipe-line at EP Kilroot will support the economic viability of converting the power station from coal to natural gas, thus contributing to lower carbon power generation in NI in line with aims and objectives of the new NI Energy Strategy, 'Path to Net Zero Energy', and providing additional security of electricity supply for NI. It is not anticipated that the new pipe-line will increase the common tariff and it may even have a potential price benefit for gas consumers.

### **Consultation:**

The Department published a public notice on the draft Designation Order, together with associated impact assessments, on its website on 11<sup>th</sup> July 2022 and invited any representations by 23<sup>rd</sup> August 2022. The public notice may be found at <https://www.economy-ni.gov.uk/consultations>.

The Department received two queries and three substantive responses to the consultation which were supportive. No objections were received and no further issues raised.

### **Monitoring and Review**

The Department will liaise with the Utility Regulator who is responsible for monitoring the operation of the common tariff structure agreed for the designated pipe-lines.

Compliance with gas licence conditions is enforced by the Utility Regulator, who has the power to impose financial penalties in the event of a licence breach.