

## **EXPLANATORY MEMORANDUM TO**

### **[The Gas (Designation of Pipe-lines) Order (Northern Ireland) 2022**

**2022 No. 248**

#### **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 ('the Energy Order') and is subject to the negative resolution procedure.

#### **2. Purpose**

- 2.1. The Statutory Rule will designate a new section of high pressure gas transmission pipe-line connecting Kilroot power station, Carrickfergus ('EP Kilroot'), to the existing Northern Ireland gas network for the purposes of the common transmission tariff within gas bills.

#### **3. Background**

- 3.1. 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 is being constructed to connect EP Kilroot to the existing Northern Ireland 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 Northern Ireland, the new pipe-line is to be designated for the purposes of the common transmission tariff under Article 59 of the Energy Order. This means that certain costs associated with the pipe-line will be added to a "postalised" pot and recovered from all Northern Ireland gas consumers (both business and domestic) over an extended period.
- 3.2. By designating the new gas pipe-line at EP Kilroot for the purposes of the common transmission tariff, the Statutory Rule 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 Northern Ireland Energy Strategy, 'The 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.
- 3.3. Without conversion, EP Kilroot was 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.

#### **4. Consultation**

- 4.1. An Article 59 public notice regarding plans to make and lay the Gas (Designation of Pipe-lines) Order (Northern Ireland) 2022, together with a draft Regulatory Impact Assessment, equality screening form and rural needs impact assessment, were published on 11th July 2022. During the six-week consultation period, the Department received two queries and three substantive responses which were supportive of plans to designate the Kilroot pipe-line for the purposes of the common tariff.
- 4.2. The public notice and associated documents are available on the Department's website at <https://www.economy-ni.gov.uk/consultations/draft-gas-designation-pipe-lines-order-northern-ireland-2022>.

#### **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 on the proposed Statutory Rule. This found that, as it is not anticipated that the proposed Statutory Rule will have a negative or differential impact on people in any of the Section 75 categories, and no opportunities have been identified for promoting greater equality of opportunity, no mitigation is considered necessary. No equality issues were raised in response to consultation.

#### **6. Regulatory Impact**

- 6.1. The Department's Regulatory Impact Assessment ('RIA') on the proposed Statutory Rule noted that 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. Once constructed, the new pipeline will be transferred to BGTL and the ongoing costs associated with its operation/maintenance will be "postalised" and recovered through the regulated common transmission tariff within gas bills.
- 6.2. It is not expected that postalising these operating/maintenance costs will lead to an increase in the common tariff and, due to the increased gas volumes used by EP Kilroot, it could even have a potential price benefit for gas consumers.

#### **7. Financial Implications**

- 7.1. As stated above, EP Kilroot is to cover the capital cost of constructing the new pipe-line and associated infrastructure as part of its power generation business. This cost will not, therefore, impact on the common gas transmission tariff.
- 7.2. BGTL's costs in respect of operating and maintaining the Kilroot pipe-line will, however, be recovered through the common transmission tariff which currently represents around 5% of a domestic customer's gas bill.
- 7.3. The annual maintenance cost for the Kilroot pipe-line and associated infrastructure is currently estimated at approximately £120,000 per annum. This equates to approximately 2% of the maintenance element within the common transmission tariff. It is not, however, expected that the Kilroot

pipe-line will result in an increase in gas prices for consumers as this small additional cost will be offset by the additional demand from Kilroot power station. As the common transmission 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. There is insufficient clarity on forecasts at this stage, however, to be certain.

#### **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 Statutory Rule Order does not contravene the Act.

#### **9. EU Implications**

9.1. Not applicable.

#### **10. Parity or Replicatory Measure**

10.1. No.

#### **11. Additional Information**

11.1. Not applicable.